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Research Project on Large Firms and System for Regular Tracking of their Strategies and Decisions: Remgro Limited Company Assessment

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Abstract

The orientation and investment strategies of large firms are at the heart of how countries develop and industrialize. In South Africa, big businesses are now highly internationalised and the investments of lead firms can shape patterns of industrial development and subsequently its ability to embark on an inclusive, labour-absorptive growth trajectory. For industrial policy to be effective there is a critical need to understand the investment trends, strategies and decision-making of large firms, as the policy levers designed to influence the firms' decisions are unlikely to be effective in the absence of such an understanding. This study focuses on analysing the behaviour and strategies of Remgro Limited over the period 2010 – 2015 as a case study for developing a system for tracking the behaviour of large, lead and dynamic firms across the economy, and abroad. The company is chosen as a large conglomerate group (controlled by the Rupert family) with substantial long-term investments held across several sectors in the South African economy, and abroad. The study uses publically available information from annual reports and announcements to assess whether investments made are largely local or abroad, in which sectors investments are focused and possible reasons why, the interaction of the company with government policies including BBBEE, and how influence exerted over investee companies, including through strategic board members and profit retention, can affect investment outcomes. The study shows Remgro's extensive and continued influence over the economy and that the largest share of the value and number of investments made by Remgro is in South Africa. Although the company has been a long-term investor (particularly where there is long-term earnings potential) and has invested in new and challenger firms such as in telecommunications, the largest investments held are in established firms with entrenched positions of market power, in sectors where barriers to entry are high and there is extensive vertical integration. Profitability of the holding firm has been high with high profit retention, potentially limiting the extent to which earnings are reinvested in the development of new productive capacity in subsidiaries and affiliated companies.

JEL classification

L1, L2

1. Introduction and overview

This paper presents a pilot of a quarterly reporting template for the tracking of large, lead and dynamic firms in the South African economy. This assessment focuses on analysing the behaviour and strategies of one firm, Remgro Limited, over the period 2010 to 2015. Particular emphasis is placed on collating publicly available information on Remgro's financial performance, investment strategies and approach, operations and extent of internationalisation, and ownership and corporate control structures. This assessment is intended to contribute towards developing a template for quarterly tracking and reporting on key firms and sectors which will inform and aid DTI sector desk policy formulation and monitoring.

Remgro, a diversified investment holding firm, was chosen for the pilot study as a large conglomerate group (controlled by the Rupert family) with substantial long-term investments held across several sectors in the South African economy, and abroad. Remgro's position is unique in the context of the South African economy in terms of the very high value of assets held in firms in which it has a controlling interest (corporate control, along with financial interest) across key industrial and consumer goods sectors. The value of Remgro's highly diversified interests held over a long period of time position it in the top tier of South African conglomerate groups, and it is most likely the largest of the conglomerate groups given the unbundling and decline in value and holdings of large mining groups such as Anglo-American in particular. It is classified as falling within the diversified industrials sector of the JSE, which involves five other listed companies including Bidvest.

Remgro's portfolio of subsidiaries and associated firms includes eight other JSE Top 100 firms based on market capitalisation in 2015 (excluding long-term interest in BAT). An aggregation of Remgro's principal investments[1] as of 31 December 2015, gives the company a total market capitalisation of R1.3 trillion[2] representing 12% of total JSE market capitalisation. This jumps to approximately 27% when including the total capitalisation of BAT.

Table 1: Remgro Limited factsheet

Listings	JSE (Main Board) as Remgro (2000)[3]
Primary business activities	Investment holding, primary income from interest & dividends
JSE market capitalisation	R117 billion (Dec 2015)
JSE ranking (2015 market cap)	17
JSE sector	Diversified Industrials
Other JSE Top 100 affiliates (by JSE market cap 2015 rank)	British American Tobacco (1) (secondary listing)[4] Compagnie Financière Richemont (4) (secondary listing)

[1] Main investments include Distell (31%), RCL Foods (77.5%), RMB Holdings (28.2%), Mediclinic (42%), RMI Holdings (30.3), Grindrod (23%) and FirstRand (3.9% direct).
[2] This includes Reinet Investments and Compagnie Financière Richemont SA. This figure also includes Remgro's market capitalisation.
[3] First listing on JSE as Rembrandt Group (1956).
[4] BAT is included here as a major long-term interest if the Rupert family, and given the ranking of the firm as the largest in terms of market capitalisation in 2015. However, 'affiliates' are generally defined in this table as firms in which Remgro holds a controlling interest on the JSE.

	FirstRand (10) Mediclinic (18) RMB Holdings (29) Reinet Investments (33) Rand Merchant Investment Holdings (36) Distell Group (48) RCL Foods Limited (82)
Internationalisation	Significant and growing, including in Asia Pacific region, UK, US, along with interest through subsidiaries in Southern Africa

In the period assessed, Remgro's emphasis has increasingly been on a subset of sectors: financial services; food, liquor and home care; healthcare; infrastructure/telecommunications and media. The nature of its investments suggests an emphasis on sectors in which Remgro is positioned to maintain or establish a position of market power.

The interests in food and agro-processing entities are especially relevant from a policy perspective given prevailing drought conditions and increased concern with climate-sensitive food production in the Southern Africa region. Furthermore, urbanisation and increased consumption of processed food products in high growth countries such as Zambia point to a significant opportunity for strategic investments. Indeed, the interests acquired by Remgro in Zam Chick which is the lead firm in poultry in Zambia suggest that this has been the focus of the company in the past five years, although following a period of poor returns in the poultry division RCL Foods made a decision to reduce its poultry output. This included making use of its three-year put option in its ownership of Zam Chick's shares to divest of its shares in Zam Chick in exchange for cash or shares in Zambeef (Remgro, 2016). RCL exercised the option with the expectation of receiving shares in Zambeef. Zambeef shareholders chose to complete the transaction using cash in a move to reduce its debt (Zambeef, 2016).

In the period assesses, Remgro has been consistent in developing its interests in the technology,[5] industrial as well as the food and beverages sectors. Between 2010 and 2015, a simple count of major acquisitions and divestitures indicates that these were primarily in these areas. Since 2006 when it profitably sold its 15% stake in Vodacom for R15.6bn,[6] past technology investments have included: Tracker, Dimension Data, Fundamo and, more recently, DFA and Seacom (Hasenfuss, 2012). In the food and beverages sector, Remgro has grown its interests in RCL Foods (which then acquired Foodcorp in this period), acquired TSB Sugar and Zam Chick in Zambia (prior to divesting). Industrial deals have largely consisted of disposal of stakes in Dorbyl and Nampak, but with further investments in KTH, KIEF and PGSI (described further below).

Some of the investments made may not necessarily be in dominant companies but in firms that have strategic assets and long-term potential for growth, such as in infrastructure provided by Seacom, DFA and Grindrod (undersea cables, fixed-line broadband and access to shipping

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[5] Since 2013 investments formerly categorized by Remgro as technology have now been re-categorised under infrastructure.

[6] MyBroadband. (2006). BEE gripe fails to halt Vodafone-VenFin deal. *MyBroadband*. Available from: http://mybroadband.co.za/nephp/1645.html

and rail terminals). These are also investments where the firms are (potentially) in a position of market power leveraging these strategic assets. On the other hand, investments in established listed firms seem to emphasise firms with diversified income and interests across the value chain such as RCL Foods that is present in animal feed, poultry production, and distribution to the retailer. Similarly, Grindrod is involved in all stages of freight and logistics services including clearing, forwarding, travel management, shipping, rail, ports and terminals (Grindrod, 2016).

In terms of its investment philosophy, Remgro seeks to exercise influence through significant shareholdings in companies and in almost all cases inserts a non-executive director to represent the interest of the Remgro board. These directors often hold positions in more than one company in Remgro's portfolio (Annexure D).

Importantly the Rupert family still maintains a significant role in terms of shaping the strategic direction of the company. Johan Rupert, son of the founder of the company Anton Rupert, is the chairman of the Remgro board as well as chairperson of the two committees vital to the running of the company: the investment, and remuneration and nomination committees. Both committees are closely tied with the operations of Remgro, first, in choosing the kind of investments made and second, in appointing directors to the various boards in Remgro's portfolio to ensure strategic direction is carried through associated firms. The Rupert family also maintain significant interests in Richemont, a Top 5 JSE firm involved with luxury goods primarily, and Reinet which primarily holds the family's interests in British American Tobacco (BAT).

The ranking of firms listed on the JSE that are affiliated with Remgro directly are presented below, covering the period 2000 to 2015. Most important to note is that the firms (including Remgro) have generally maintained positions in the top 100 firms on the JSE by market capitalisation throughout this period (Table 2). This confirms the view that Remgro is currently positioned as one of the lead conglomerate groups in South Africa although detailed assessment of peer groupings is an area for further research. Indications from the discussion which follows throughout the paper are that the firm (and group) has been able to maintain its controlling position in the economy in key industries and interests have grown in those industries either through increased shareholding or growth in the market power of those firms. Furthermore, there are more recent investments which are positioned to grow substantially in the near future (such as investments in telecommunications).

Table 2: Market capitalisation ranking of affiliate firms, 2000 - 2015

	Market capitalisation (R billions, 2015)	**2015 rank**	**2010 rank**	**2005 rank**	**2000 rank**
Remgro	*118.0*	*17*	*21*	*15*	*14*
BAT[7]	*1769.7*	1	-	-	-
Richemont	582.6	4	7	5	2
FirstRand	237.7	10	15	6	6
Mediclinic	116.5	18	53	57	-
RMB Holdings	78.5	29	25	22	25

[7] BAT market capitalisation reflected after inward listing classification rules were changed in 2011. See http://www.moneyweb.co.za/archive/british-american-tobacco-welcome-to-the-top-40/

Reinet Investments	62.4	33	45	-	-
Rand Merchant Inv	57.5	35	-	-	-
Distell Group	36.7	48	61	59	61
RCL Foods	13.6	82	97	82	85
Grindrod	8.6	108	79	61	110

Source: Own calculation from INetBFA data

Remgro's positioning as a lead firm across several key economic sectors and the vertical integration of subsidiaries such as RCL Foods points to the importance of understanding Remgro's current strategies and interests for policy making. The table below summarises firms in which Remgro holds a substantial interest relative to the twelve main product categories considered by Statistics South Africa in deriving the Consumer Price Index (CPI) in South Africa (Table 3). The extent of diversity in the Remgro portfolio of assets is most significant to note, as well as the level of influence on economic outcomes that this position attributes to the firm not least because of its footprint across sectors. It is thus especially important to understand this network of influence and control and its likely implications for developmental outcomes and policy making.

Table 3: Remgro interests in terms of CPI categories

	CPI category	**Remgro company**
1	Food and non-alcoholic beverages	RCL Foods, Unilever, Kagiso Tiso Holdings, Invenfin
2	Alcoholic beverages and tobacco	Distell, British American Tobacco
3	Clothing and footwear	Richemont
4	Housing, water, electricity, gas and other fuels	Air Products SA, IPROP Holdings, Historical Homes of South Africa, Total SA, Business Partners, Kagiso Tiso Holdings
5	Furnishings, household equipment and routine maintenance of a house	Unilever, Kagiso Tiso Holdings, PGSI
6	Health	Mediclinic, Kagiso Tiso Holdings
7	Transport	PGSI, Total SA, Grindrod
8	Communication	Dark Fibre Africa, Seacom, CIV Group
9	Recreation and culture	PGSI, Sabido, Premier Team Holdings, Blue Bulls, Western Province Rugby, Kagiso Tiso Holdings
10	Education	PGSI, Stellenbosch Academy of Sport
11	Restaurants and hotel	PGSI, Kagiso Tiso Holdings
12	Miscellaneous goods and services	Richemont, Reinet, FirstRand, RMI Holdings, RMB Holdings, Unilever, Kagiso Tiso Holdings

Source: Stats SA (2013)[8]; various companies' websites and/or annual reports.
Note: The companies identified in the table are either Remgro's associates, subsidiaries, companies in which it has a significant stake or those that are administered by the Rupert family (see Annexures).

The assessment begins by outlining key aspects of the sector in which Remgro is grouped on the JSE, including the relative profitability of these diversified firms, before considering specific

[8] Stats SA. (2016). Consumer Price Index: The South African CPI Sources and Methods Manual. Release v .2.

aspects of Remgro's business in the remainder of the report. A preliminary assessment is provided of Remgro's interests in telecommunications as a sector of policy interest. This analysis is intended to be illustrative of the kind of detailed assessments that could be emphasised more in the tracking and that could form part of the quarterly reporting framework.

2. Diversified industrials sector overview

2.1. Sector description

Remgro is classified on the Johannesburg Stock Exchange (JSE) in the diversified industrials sector.[9] In 2016, the sector comprised six listed companies, as follows:

- **Argent Industrial:** Largely a steel-based beneficiation group with a diverse portfolio of businesses that include international brands.
- **Barloworld:** Holding company for a group that is a distributor of international brands; providing integrated rental, fleet management, product support and logistics solutions.
- **Bidvest:** Investment holding with subsidiaries in services, trading and distribution.
- **Eqstra Holdings:** Investment holding with entities providing capital equipment and related value-added services to clients in the construction, mining, and industrial sectors in South Africa and abroad. Unbundled from Imperial Holdings in 2008.
- **KAP Industrial:** Investment holding specialising in logistics, passenger transport, timber and industrial manufacturing to clients primarily in emerging African markets. Major shareholder is Steinhoff (43% share).
- **Remgro:** Investment holding, deriving its cash income mainly from dividends and interest.

In the context of other firms in this classification, Remgro is notable for the wide range of sectors in which it holds investments, and the high combined value of those interests relative to the total capitalisation on the JSE. It is also significant that Remgro and investments associated with the conglomerate group are in many cases long-standing over several decades, and comprise interests across several lead firms within the JSE Top 100, and not only Remgro's direct interests. Counterparts in the sector tend to be relatively smaller entities overall with the exception perhaps of Bidvest and Barloworld that are the only other Top 100 firms. While Remgro's estimated control of the JSE is 12% based on principal investments, the actual influence on the economy could be significantly higher given that Remgro also has noteworthy investments in unlisted companies such as Unilever and Total South Africa, as well as interests in other listed firms not in the Top 100 (e.g. Grindrod).

2.2. Key performance metrics: diversified industrials sector

Analysis of investments will largely focus on the types of assets acquired and growth over time while profitability will focus on time series analysis of key profitability indicators.

Sector performance highlights:

- The rate of growth in total assets exceeds that of the JSE as a whole over the period.

[9] This sector comprises companies that are engaged in three or more classes of business (within the industrials sector) that differ substantially from each other, none of which contributes 50% or more of revenue nor less than 10%. Companies that are engaged in businesses in three or more subsectors that are in two or more industries, are also classified as a diversified industrials (FTSE, 2016).

- Growth in total assets varies by firm, but across the sector is led by a combination of growth in current assets, investments and fixed and non-current assets.
- The compounded average growth rate (CAGR) in total assets is 14% per year while the overall growth rate over the period under review is 95%. This is higher than the CAGR of 12% and an 81% growth rate of assets reported on all companies listed on JSE (All share JSE benchmark) over the same period.
- In each year, current assets constitute the largest share of total assets of firms in the sector, at 44% on average.
- Revenue growth in the sector was lower than the JSE average, although return on assets and equity were substantially higher than the average of all listed firms through the period indicating high profitability of firms in the sector.
- Employment growth is led by Bidvest which accounts for 74% on average of the total number of people employed by firms in the sector.

3. Remgro ownership and structure

Remgro Ltd is a South African investment holding company established in 1948 as a tobacco company then called Rembrandt Group Ltd by Dr. Anton Rupert. It was listed on the JSE in 1956 and has since diversified its interests into more than 30 investee companies. The company is considered to be one of the most successful Afrikaner group companies and as discussed above still maintains significant interests in the South African economy (Chabane, Goldstein and Roberts, 2006). Between 1994 and 2004, Remgro was one of the six major conglomerate groupings along with Anglo American, Sanlam, Liberty Life, Old Mutual and Anglovaal controlling through various corporate interests the majority of the economic activity in South Africa measured using market capitalization (Chabane et al, 2006). Today Remgro remains one of the top companies registered on the JSE. The Rupert family maintains a significant share of the voting rights.

3.1. Ownership structure

Remgro has issued share capital in two classes; ordinary shares of no par value and B ordinary shares of no par value.[10] The first class of ordinary shares is listed on the JSE. The shareholders with the highest interest are Standard Bank Nominees (Transvaal) Pty Ltd (36.9%), First National Nominees Pty Ltd (15.1%) and Nedcor Bank Nominees Ltd (5.4%). The remaining 42.6% of the shareholding is held by several companies, none with more than 5% shareholding (Figure 1).[11] Through its shares in various companies, the Government Employees Pension Fund (GEPF) and Public Investment Corporation (PIC) together held 13.35% of the shareholding in Remgro as of December 2015, the highest amount held by individual shareholders.[12]

Figure 1: Remgro ownership structure, 2015

[10] B ordinary shares are a class of ordinary shares that often pay higher dividends than Preference Shares. Holders may have less voting rights than Ordinary shareholders or none at all. They also lack the right to any repayment of capital should the company be dissolved.
[11] Inet BFA data.
[12] Inet BFA data.

Listed	Unlisted
• **Ordinary shares of no par value** • Standard Bank nominees (36.9%) • FNB nominees (15.1%) • Nedcore nominees (5.4%) • Various companies (42.6%) each less than 5% interest	• **B ordinary shares of no par value** • Rembrandt Trust Proprietary Limited (Entitled to 42.57% of total votes)

Source: Remgro (2015)

The B ordinary shares are unlisted and are held by the Rembrandt Trust Proprietary Limited (Rembrandt Trust), a holding company for the Rupert family interests in Remgro. Each share represents ten votes. The unlisted B ordinary shares were entitled to 42.57% of the total votes of the company as of June 2015 (Figure 1).

3.2. Group structure and strategic positioning

From 2010, Remgro's primary interests are focused on a subset of sectors including food, liquor and home care; banking; healthcare; insurance; industrial; infrastructure; media and sport. The various investments take the form of subsidiaries, joint ventures or associates.[13] Joint ventures and associates include those listed and unlisted companies in which Remgro has no control but has significant influence through board representation or joint control, such as RMB Holdings or RMI Holdings. For investments in which Remgro has no board representation the interest is not indicated as part of the group structure and is treated simply as a portfolio investment. Annexure A provides a list of Remgro's subsidiaries. Figure 2 below displays Remgro's key investments and proportion of shares held. Also included below in Figure 3 is a more detailed representation of the companies in which Remgro holds equity interests, as well as the interests held by government entities and other firms in those same companies.

Remgro's focus on investment in food and beverages and the technology (telecommunications) sector is expressed in the interests held in RCL Foods, Distell, DFA and Seacom. The company also set up a separate venture and capital growth subsidiary company, Invenfin whose priority areas of investment are the food and technology sector. Invenfin is currently partnering to fund and support nine companies, five of which are in the technology space (AdDynamo, ArcAqua, LifeQ, Orso and Wyzetalk) and four in the food sector (Dynamic Commodities, De Villiers Artisan Chocolate, Boss Brands and Le Bonbon).[14] Invenfin invests in companies that have acquired some traction in the market, are in line with global trends, are poised for growth, and that may have strong intellectual property.

The Industrial Policy Action Plan (IPAP) 2016/2017 – 2018/2019 identifies science, technology and innovation as a transversal focus area and the agro-processing sector as a priority area. The agro-processing sector has five key action programmes: 1) Systemic alignment of the

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[13] Subsidiaries are also defined as those companies in which the main shareholder has 50% holding or more, associates those with holdings between 49% and 20% while portfolio investments are those of with holdings of less than 20% (Who Owns Whom, 2010).
[14] Invenfin website.

various spheres of government and private sectors; 2) Identification of four value chains in which to unblock critical constraints; 3) Identification of niche opportunities for support and development; 4) Providing support for critical agro-processing infrastructure; 5) Developing agro-processing suppliers.[15] Ideally, Remgro provides an opportunity for partnership with the government in this sector because of its interests in RCL Food and Distell to some extent, particularly with regards to supplier development. However, any anti-competitive and strategic conduct by the large firms in the Remgro grouping can also have significant negative effects in terms of undermining policy initiatives in this sector.

RCL Foods is a dynamic company in that it is involved in several food segments including poultry, sugar, and milling, animal feed and baking which suggests several points of interface between this company and initiatives of government in processing and food production. The integration of RCL Foods into distribution, as well as Remgro's interests in Grindrod can present an opportunity or a challenge in the policy context. To the extent that vertical integration can be used to undermine new rivals, planned policy initiatives may be constrained. On the other hand, strategic assets in shipping and logistics could be leveraged, particularly in increasing access to the regional market. Remgro's linkages to Export Trading Group (ETG) through its investment in the Pembani Remgro Infrastructure Fund (PRIF) also provide it with a critical link into the regional agricultural markets. ETG is involved with purchasing from producers and trading of agricultural products internationally, with a well-established footprint in East and Southern Africa.

In the technology sector, in line with the prioritisation in IPAP of science, technology, and innovation, the Department of Science and Technology and CSIR Meraka Institute developed a national ICT research, development, and innovation roadmap. The roadmap identifies the drivers for growth in the sector of which broadband service infrastructure is critical.[16] An Information and Communications Technology (ICT) green paper developed under the auspices of the Department of Telecommunications and Postal Services (DTPS) made a number of recommendations including the promotion of technology and service neutrality, removal of bottlenecks that restrict entry of new players; the implementation of a rapid deployment policy to facilitate the roll-out of broadband networks, and the provision of open access to all networks.[17] Some of these recommendations are already being implemented such as the development of the Gauteng Broadband Network (GBN) that is being developed in partnership with DFA. In this case, as discussed below, DFA is strategically positioned as a challenger firm in the provision of telecommunications and broadband infrastructure where markets are traditionally concentrated both in mobile and fixed provision. In the context of the broader SA Connect target of 90% of the population with access to broadband of at least 5Mbps by 2020, there is significant potential to leverage the entry and participation of firms such as DFA although this may also serve to entrench control of Remgro as a large conglomerate group over strategic assets in the economy.[18]

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[15] See; The Industrial Policy Action Plan 2016/2017 – 2018/2019

[16] Department of Science and Technology, 2013, National ICT R&D and innovation roadmap. Available here.

[17] See Department of Telecommunications and Postal Services (DTPS), March 2015, *National Integrated ICT Policy Review Report.*

[18] South Africa Connect, Available here.

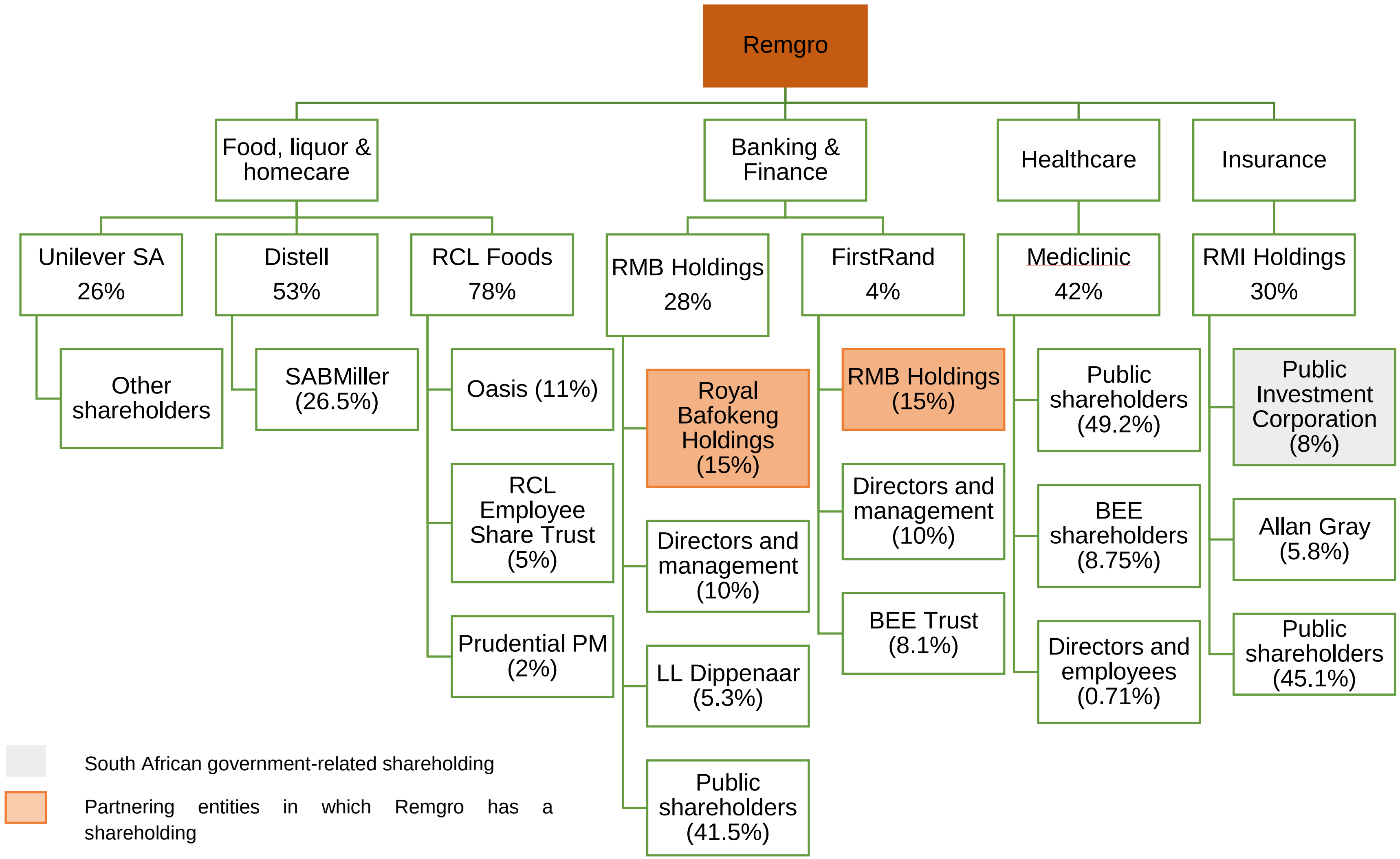
Figure 2: Remgro group structure

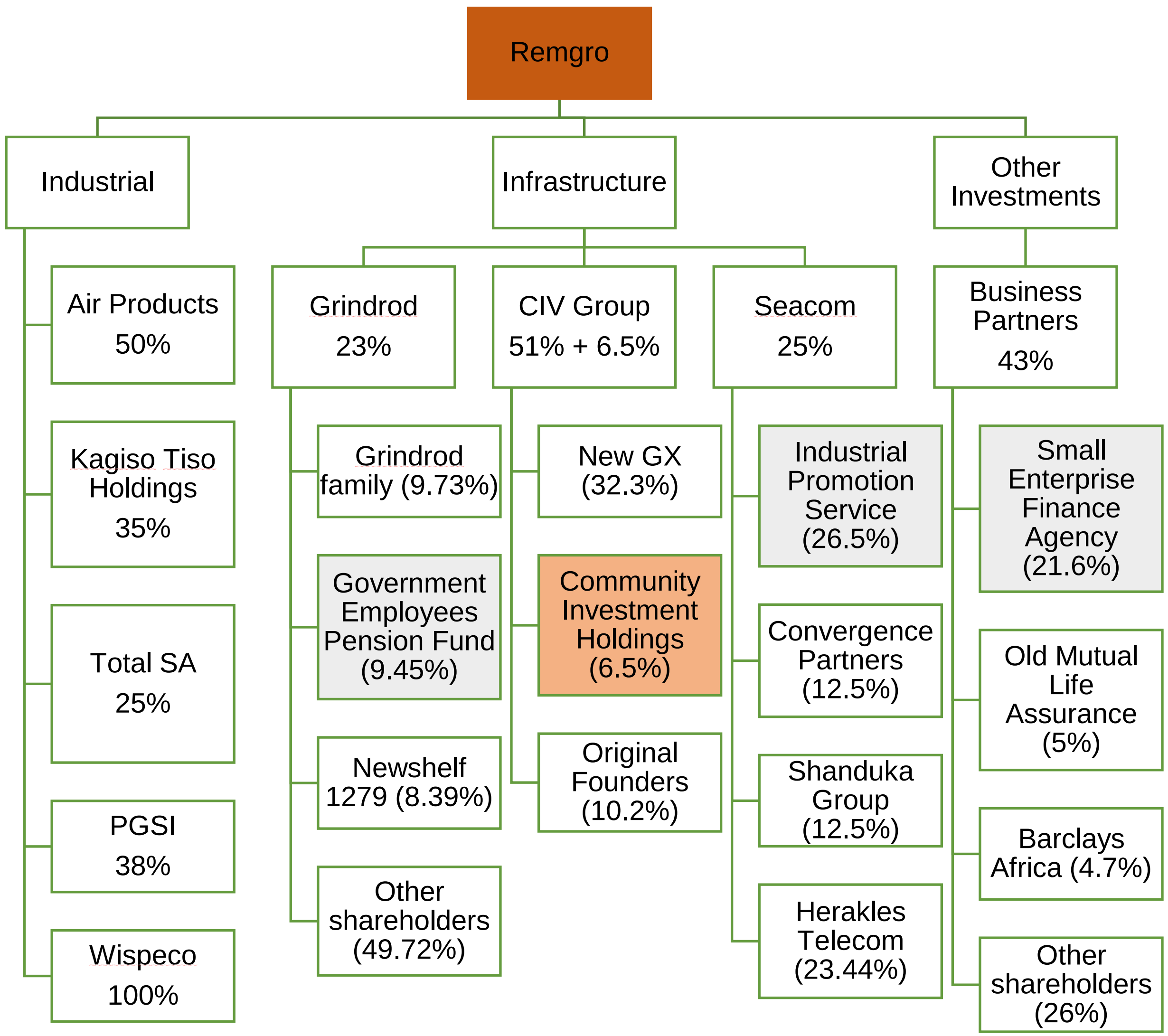
Food, liquor & home care	• **Unilever South Africa (25.8%)** • *>50% market share in soups, soaps, detergents* • *42.5% market share in ice cream and frozen desserts* • *>30% market share in bath, deodorants, surface care and toilet care* • **Distell (31%)** • *95.6% market share in the Cider/Perry* • *31.4% market share in wine (Other firms have less than 5% market share)* • *27.5% market share in spirits (Other firms: Diageo with 35.3%)* • **RCL Foods (77.5%)** • *Second largest in SA poultry (on revenue) & integrated into distribution (Vector), feed (Epol)*
Banking	• **RMB Holdings (28.2%)** • **FirstRand (3.9%)** • 2nd largest retail bank in SA by total assets • FNB Business enjoys a market share of 29% in Growth and 25% in Commercial segments
Healthcare	• **Mediclinic (42.0%)** • *Big 3 hospital group in southern Africa* • *22% market share in number of beds in proviate hospitals (Others: Netcare (28%), Life Healthcare (23%), National Hospital Network (11%) , Independent (16%))*
Insurance	• RMI Holdings (30.3%)
Industrial	• **Air Products South Africa (50.0%)** • *Lead supplier of industrial chemicals & gases in Southern Africa* • **Total South Africa (24.9%)** • *Controls 36% of Natref (4th largest oil refinery in South Africa, with Sasol)* • PGSI (37.7%) • Wispeco (100%) • Kagiso Tiso Holdings (34.9%)
Technology/ infrastructure	• **Grindrod (23%)** • *Lead logistics and infrastructure firm in Africa* • CIV Group (50.9%) • SEACOM (25%)
Media & sport	• Sabido (32.4%) • Premier Team Holdings (Saracens) (50%) • Blue Bulls (50%) • Western Province Rugby (24.9%) • Stellenbosch Academy of Sport (100%)
Other investments	• Business Partners (42.7%)
Treasury & management services	• Remgro Finance Corporation (100%) • Remgro Management Services (100%) • Remgro International - Jersey (100%)

Source: Remgro company website[19]

[19] Market share information from Euromonitor database, competition case reports, and annual reports.

Figure 3: Remgro major investments and other major shareholders and partners

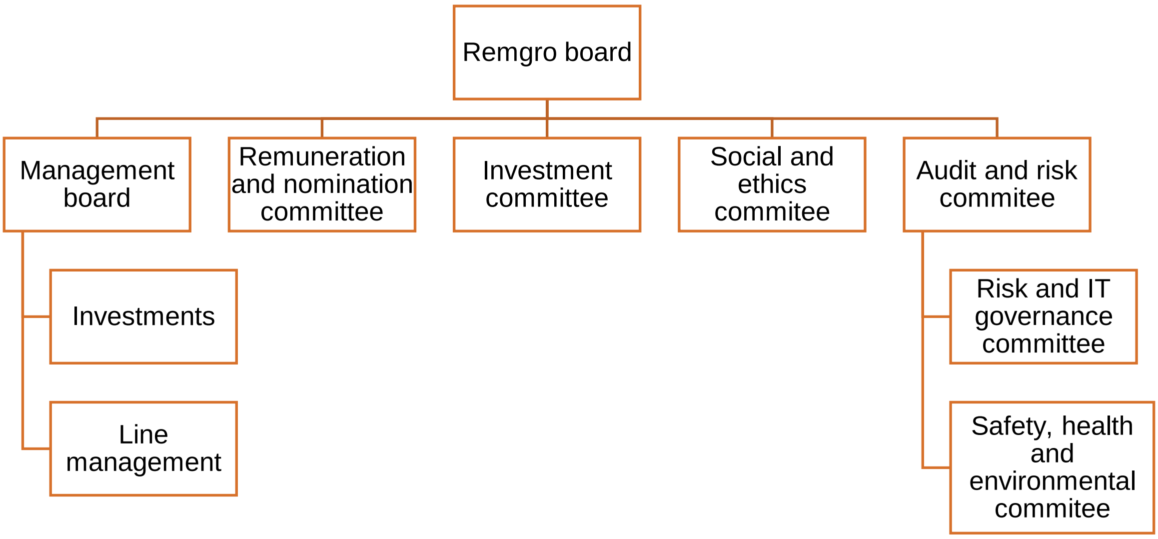



Remgro
Industrial
Infrastructure
Other Investments
Air Products 50%
Kagiso Tiso Holdings 35%
Total SA 25%
PGSI 38%
Wispeco 100%
Grindrod 23%
CIV Group 51% + 6.5%
Seacom 25%
Business Partners 43%
Grindrod family (9.73%)
Government Employees Pension Fund (9.45%)
Newshelf 1279 (8.39%)
Other shareholders (49.72%)
New GX (32.3%)
Community Investment Holdings (6.5%)
Original Founders (10.2%)
Industrial Promotion Service (26.5%)
Convergence Partners (12.5%)
Shanduka Group (12.5%)
Herakles Telecom (23.44%)
Small Enterprise Finance Agency (21.6%)
Old Mutual Life Assurance (5%)
Barclays Africa (4.7%)
Other shareholders (26%)

3.3. Management structure

Remgro's board committees assist the Remgro board in carrying out its functions (Figure 4). In June 2015, Remgro's board comprised three executive and eleven non-executive directors, eight of whom were independent (Remgro, 2015).

Figure 4: Remgro's management structure



Source: Remgro (2015)

Johann Rupert is the Chairman of the Remgro board as well as chairman of the remuneration and nomination, and investment committees. As part of the company's founding family and holding a large percentage of the voting rights in the company, Johann Rupert is not an independent director as recommended by King Report on Governance for South Africa 2009 (King III). The company has however justified Johan Rupert's positions by emphasizing the director's business experience and the necessity to align the company's remuneration approach with corporate strategy (Remgro, 2015). Johan Rupert receives no remuneration or fees from the company.

Remgro's management in its investment companies is restricted to its influence through non-executive representation on the boards of the companies. Management of the investment companies is concentrated mainly on the provision of support and not the day-to-day operational management of the business. In the case of Remgro's associates and joint ventures where there are other major shareholders, shareholder agreements are drawn in which Remgro is involved in the decision-making of activities such as the "… *appointment/removal of directors, capital structure, business strategy, large capital expenditure and mergers, acquisitions and disposals"* (Remgro, 2015).

4. Key performance metrics for Remgro

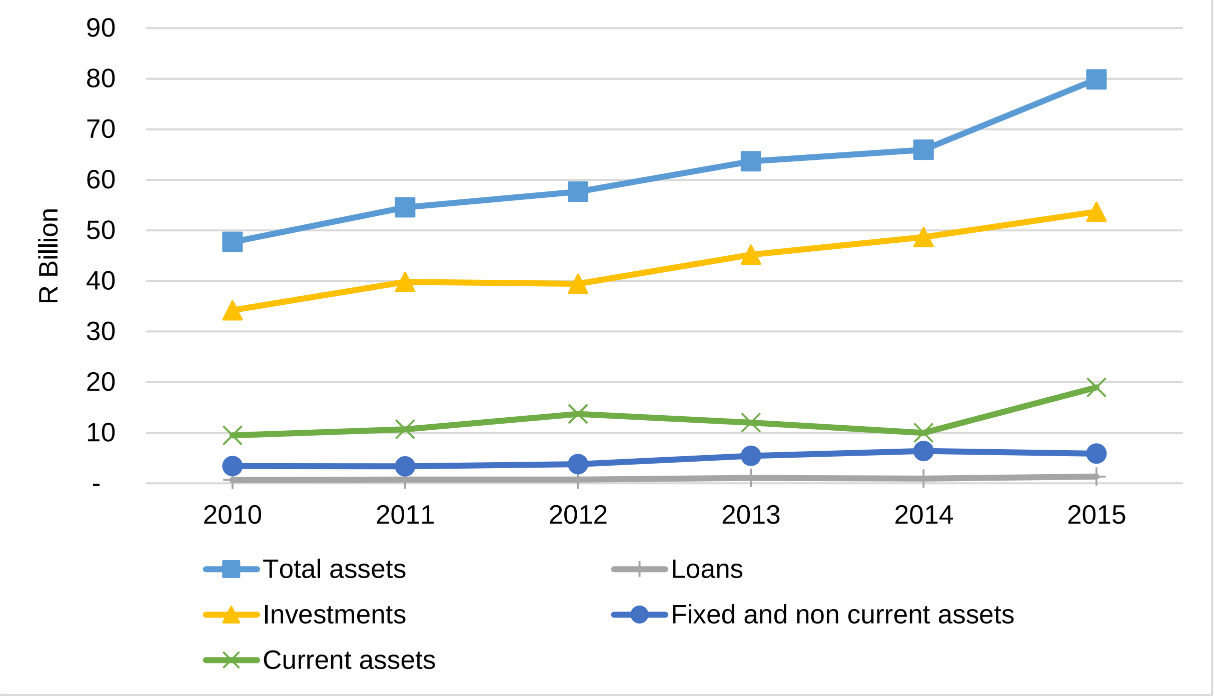
4.1. Assets and investments

Remgro's total assets expressed in real terms increased significantly (68%) between 2010 and 2015 (Figure 5). This was largely driven by growth in investments held in other entities which contribute 72% to total assets. There was a notable negative growth between 2011 and 2012 which was largely caused by the unbundling of the Impala Platinum Holdings investment (R3.9 billion). Investments comprise shares bought in different companies as well as loans extended to organisations in lieu of equity participation. This form of investment does not necessarily translate in the short term to expansion through increased output, customer base expansion, or new product development. However, the investee firms are likely to benefit from capital injection which allows them over time to increase output, expand product range and enter new markets, as in the case of Dark Fibre Africa discussed further below. This is especially likely in cases where investments are held over a significant period of time and allow the investee firms to develop productive capabilities and expand over time including into new markets rather than narrow portfolio investment holdings which tend to emphasise short-term profitability.

The second largest component of Remgro's total assets is current assets which constituted around 20% of total assets in 2015, largely comprising investment in short-term assets such as cash, inventory, accounts receivables and other assets that can be easily converted to cash. Current assets also include some short-term money market investments such as treasury bills. Current assets in real terms more than doubled from R9 billion in 2010 to R19 billion in 2015. However, current asset investments do not generally facilitate growth due to small returns associated with these assets and they are fundamentally meant to maintain an organisation and finance the day-to-day running of the entity.

Fixed and non-current asset investment is Remgro's lowest investment driver. This is primarily because Remgro is an investment holding company not directly operating any productive assets itself. Over the period under review, investment in fixed and non-current assets has increased in real terms by 75% (R3.3 billion to R5.8 billion) however it is still relatively small and in absolute terms constitutes on average 7% of total assets.

Figure 5: Composition of total asset (real), 2010 - 2015

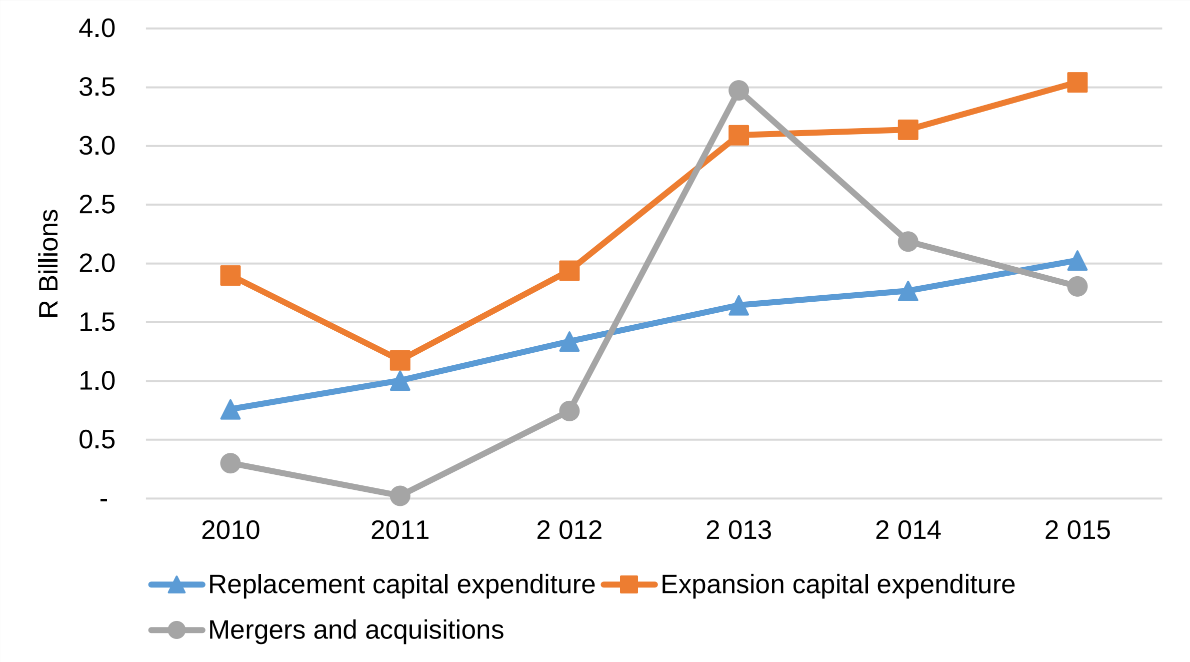


Source: INetBFA

Note: Nominal data. Current assets are made up of short-term assets that are expected to be converted into cash within twelve months. Current assets include cash and cash equivalents, inventory and receivables. Fixed and non-current assets comprise long-term fixed assets with a useful life of more than 1 year; Fixed and non-current assets are used in the production of income and they include machinery, vehicles and computers. Investments and loans include equity investments made in listed and non-listed companies (subsidiary and associate investments) as well loans extended to subsidiary and associate companies.

The total amount of investments under Remgro's influence are not only limited to Remgro's own investments but also those made by the companies where it has significant control. Below, the capital expenditure made by Remgro's principal investments is analysed for listed firms for which a disaggregation of expenditure is available (Figure 6). The analysis is indicative nonetheless of the trends in capital expenditure in this period and of the type of analysis that can be undertaken for different firms and sectors going forward.

Figure 6: Remgro's principal investments' capital expenditure 2010 – 2015



Note: Principal investments considered are Distell, Grindrod, RMB Holdings, Mediclinic, RCL Foods[20]

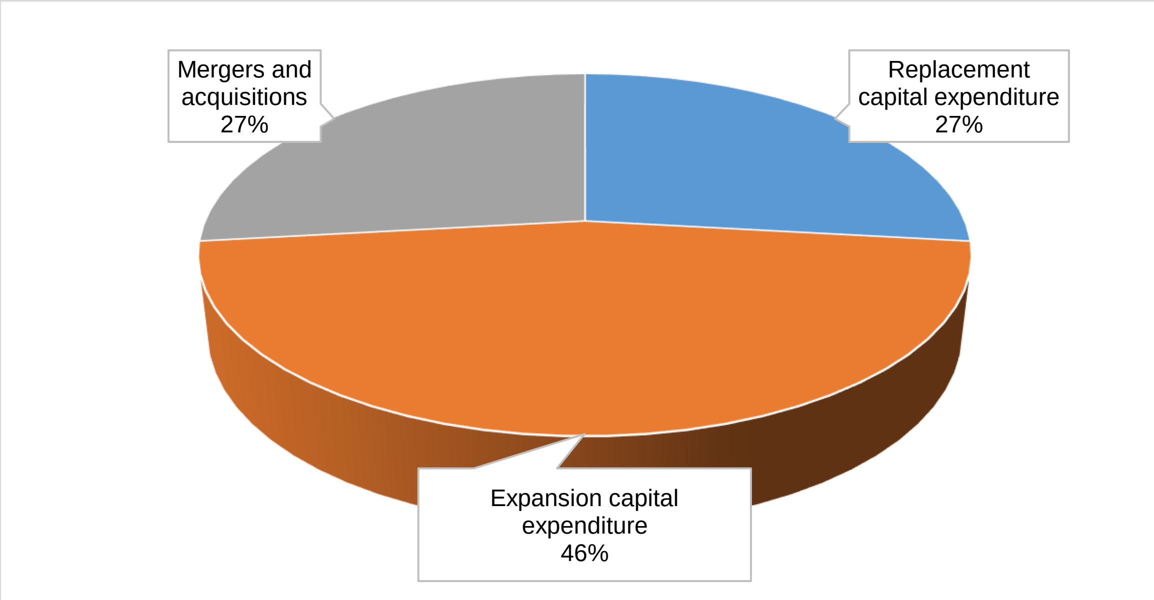
Remgro's principal investments' capital expenditure over the period under review has been largely driven by expansion capital expenditure. The large decrease in expansion capital investment in 2011 was a result of a general decrease in capital investments across all firms under review. Expansion capital is largely driven by Mediclinic which has significantly high capital expenditure and in some years (2014 and 2015). Mediclinic's expansion capital alone is higher than that of the other four firms combined and constitutes 51% of all expansion expenditure of the firms considered.

Replacement capital expenditure has grown by a CAGR of 22% and more than doubled overall since 2010. Replacement capital expenditure and mergers and acquisitions constitute equal shares of 27% each (Figure 7). Expansion capital expenditure (46%) constitutes the bulk of

[20] These companies were considered here as large publicly listed companies for which detailed information on expenditure was available and in which Remgro holds a significant stake.

the capital expenditure, which is important in so far as this largely comprises investment in new assets. The volatility in mergers and acquisitions expenditure is largely as a result of the nature of acquisitions – once off high outlays. For example, the spike in 2013 was a result of RCL Foods acquisition of Foodcorp (R1.026 billion) and Distell's acquisition of Burn Stewart Distillers Limited (R1.9 billion).

Figure 7: Composition of Remgro's principal investments' capital expenditure



Source: Authors' calculations from various annual reports

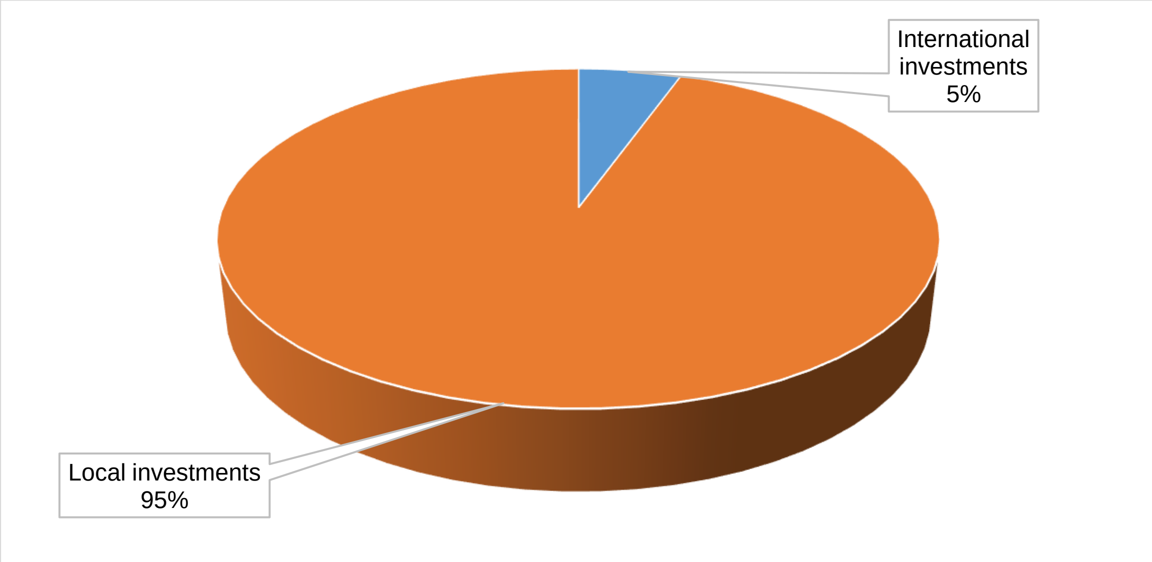
4.2. Remgro investment trends 2010 - 2015

Between 2010 and 2015, Remgro made a total of 30 investments.[21] Of this, 27 (90%) were local investments and 3 (10%) were international investments. The international investments include an additional investment of R52.5 million in Xiocom in 2010, R265.8 million investment in Milestone China III in 2014, and another investment worth R371 million in Milestone China III in 2015. Although Remgro made an additional investment in Xiocom in 2010, it sold Xiocom later that year.

The 30 investments made by Remgro between 2010 and 2015 amounted to R15.9 billion in total value. International investments amounted to R874 million representing only 5% of total value while local investments amounted to R15 billion representing 95% of total transactions (Figure 8). Two local investments worth more than R3 billion were made in 2009/10 when Remgro acquired VenFin, and in 2013 when Remgro increased its shares in RCL Foods from 73.4% to 75.9%.

[21] Significant investments documented in annual reports.

Figure 8: Distribution of Remgro's total value of investment expenditure (2010 – 2015)

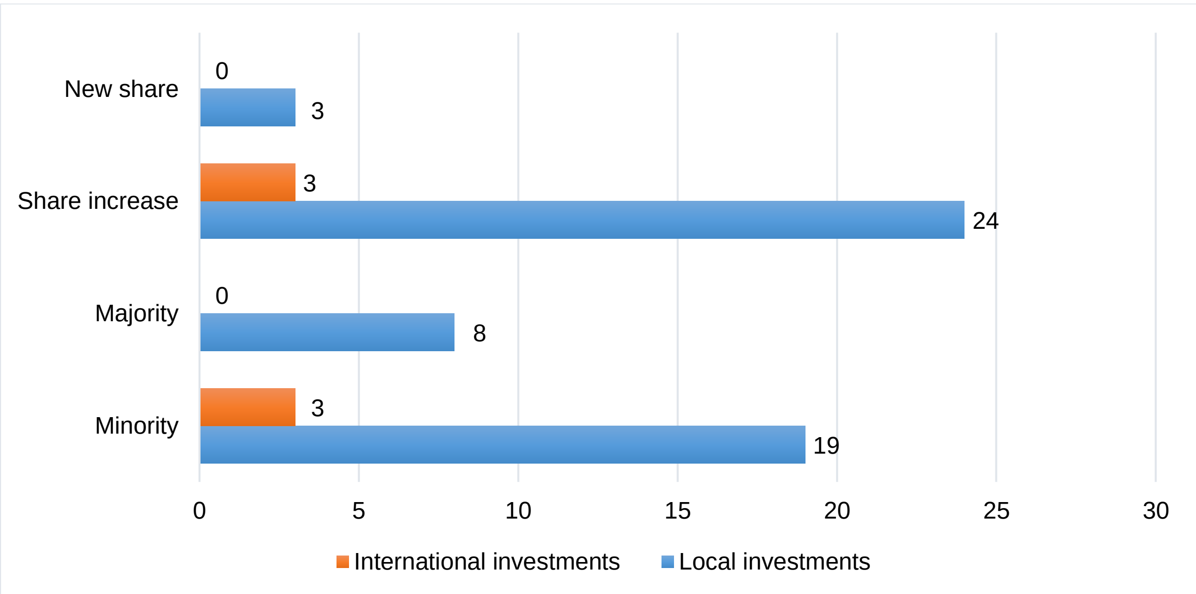


Source: Authors' own calculation from Remgro's annual reports

Classification of both the local and international investments reveals that Remgro's acquisitions/investments during this period were mainly of shareholdings of less than 50% although these investments may still attribute a position of corporate control and influence.

Remgro's local investments mainly consisted of increases in existing shareholding. Of the 27 local investments, 24 transactions were to increase Remgro's existing shares and 3 were investments in new shares. The increase in existing shares could be an effort on Remgro's part to grow its influence over the company. 8 local investments gave Remgro a majority shareholding while 19 local investments involved an investment to an overall minority shareholding. All three international investments were increases in Remgro's existing share in these investments although these interests in total remain less than 50%.

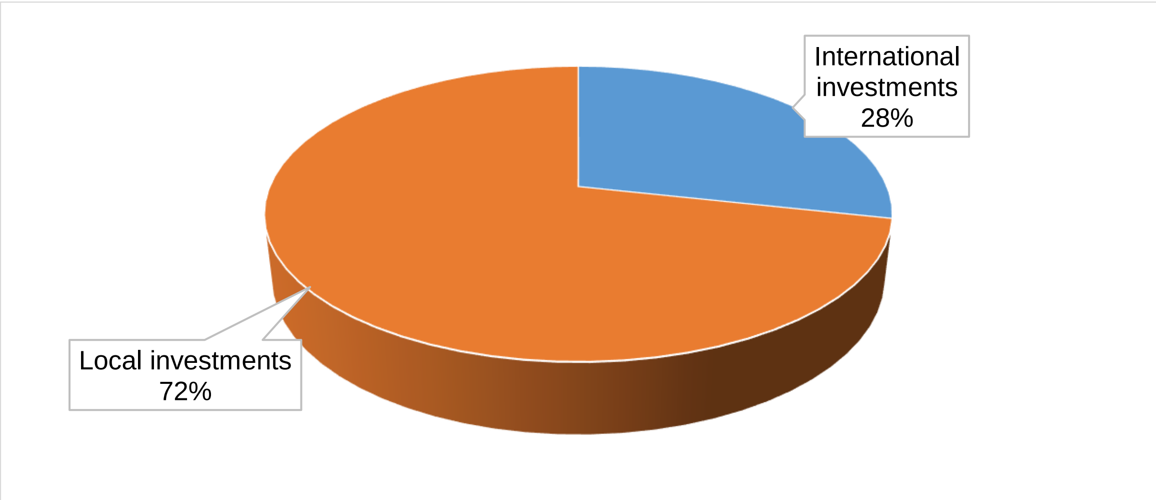
Figure 9: Remgro's investments by nature of investment (2010-2015)



Source: Authors' own categorisation from Remgro's annual reports

A consideration of some of the investments made by Remgro's principal investee companies shows that a greater share of investment value (28%) is expended outside of South Africa. Here we consider listed companies Distell, RCL Foods, Mediclinic and Grindrod as above. For the four companies, an estimated R22 billion was spent on various investments.

Figure 10: Distribution of investments by Remgro's principal investee firms (2010-2015)



Source: Authors' own calculation from various annual reports

4.3. Profitability trends 2010 – 2015

Remgro's profitability has been relatively higher than the profit reported within the diversified industrials sector over the period under review (Table 4). Earnings before interest and tax also tripled from 2010. Revenue increased by 116% from R11.8 billion in 2010 to R25.6 billion in 2015. Similarly, earnings before interest and tax also grew by 202% from R653 million in 2010 to R1.97 billion in 2015. A significant decrease in earnings before interest and tax was experienced in 2013 as a result of one-off charges relating to the refinancing by Mediclinic of its Swiss and South African debt during October 2012. Remgro's share of these once-off charges amounted to a loss of R1.3 billion.[22]

Table 4: Remgro's profitability 2010 - 2015

	2010	2011	2012	2013	2014	2015
Turnover (Rbn)	11.9	14.9	13.5	16.4	24.6	25.6
EBIT (Rbn)	0.7	2.9	4.9	0.3	0.7	1.9
Net profit margin	26%	73%	69%	27%	28%	34%
Remgro's return on assets	1%	4%	9%	0.4%	1%	2%
Diversified industrials return on assets (Avg)	6%	8%	9%	7%	4%	7%
Remgro return on equity	7%	17%	17%	8%	11%	11%
Diversified industrials return on equity (Avg)	5%	12%	14%	11%	6%	10%

[22] Remgro Annual Report 2013.

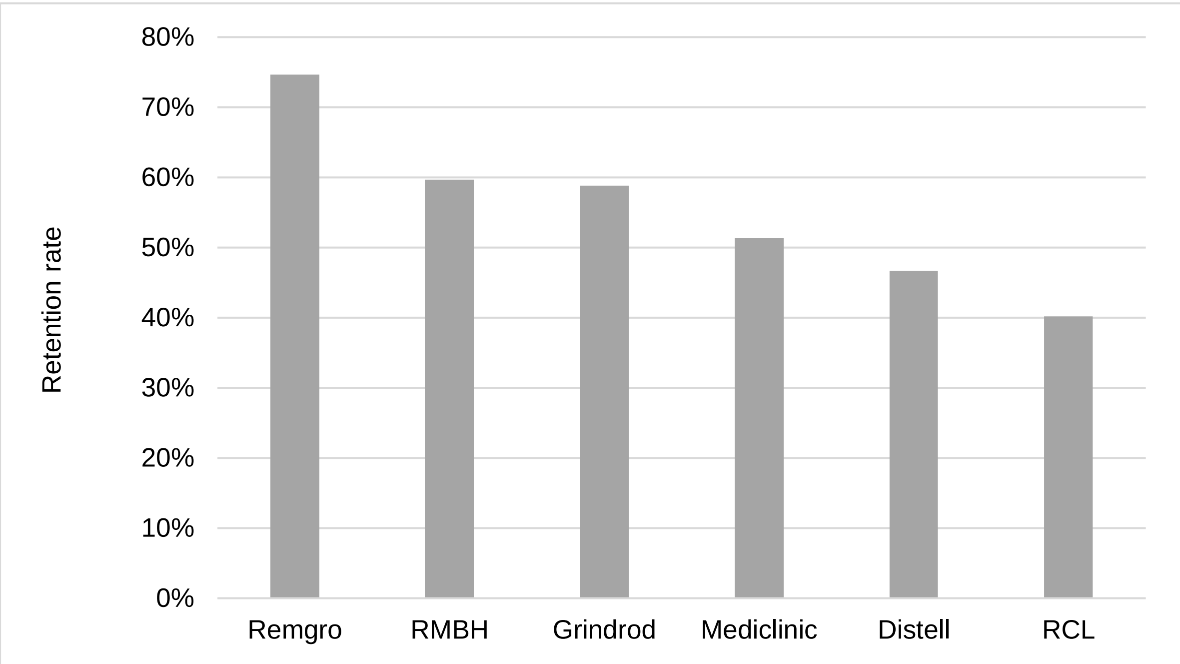
Source: Inet BFA

The most significant contributors to Remgro's net profit were FirstRand, RMB, RMI and Mediclinic. Net profit margin is significantly higher than that of the overall sector averaging 43% over the period under review. It grew from 26% in 2010 to 34% in 2015. In 2011 and 2012 it was as high as 72% and 69% respectively as a result of high returns from investee companies such as Unilever (2011 & 2012), Total SA (2011 & 2012) and PGSI Limited (2012). This period was followed by a significant decline in net profits due to refinancing of Mediclinic.

Remgro's asset yield is relatively lower than the asset yield in the diversified industrials sector. On average Remgro's return on assets of 3% is lower than the 7% reported by firms in the diversified industrials sector over the period under review. However, caution is exercised in assessing Remgro's profitability using the return on assets which may be distorted by high growth and net changes in assets acquired (and not profits necessarily), which may be in assets that are likely to take some time to return substantial profits, as was the case with Remgro's investments in e-tv and later in Dark Fibre Africa and Seacom.

The portion of the profits that a firm retains within the company after paying dividends (retention rate) is important for assessing potential for reinvestment in expansion and growth. Companies that have high retention rates are viewed as high growth potential companies that can invest significantly in new assets. Firms with low retention rates are usually companies that no longer have expansion capacity and lucrative projects to invest in. Therefore instead of keeping the funds within the organisation earning low returns they would rather distribute returns to shareholders as dividends (Lally, 2013; Johnson and Soenen, 2003). The figure below shows average retention rates for Remgro and its principal investments for which data on payout ratios is available.

Figure 11: Average retention rates for Remgro and principal investments (2010-2015)



Source: Based on INetBFA data.

Note: Retention rate is calculated as 1 minus payout ratio. Payout ratio = dividends / net profit available for distribution to ordinary shareholders.

Remgro, RMB Holdings, Grindrod and Mediclinic all have retention rates of greater than 50% meaning that the firms choose to retain more of their returns for possible reinvestment in the company or in other entities. Interesting to note also is the fact that Remgro has a higher retention rate than its investee companies. Lewis (in Joffe et al, 1995) suggests that conglomerates may control their subsidiaries' access to capital by determining the retention rate through dividend policies. In the same way, Remgro may be employing the same approach to extract dividends/profits from its investee firms for use to support its own additional investments. This may lead to Remgro's own growth at the expense of its investee firms although further analysis in this regard would be required.

4.4. Employment trends

Remgro has a large total asset base and revenue per year, however, the number of people employed by the organisation is small. Over the period under review, the highest number of people it has employed is 187 in 2012. This could be attributed to the fact that Remgro is largely an investment company. The entity holds shares in different companies which increases their asset base and revenue (through dividends), although the employment numbers of investee firms are not reported in Remgro's annual reports and accounts. Many of the subsidiaries are not listed and/or do not report employment information publicly.

5. Remgro's investment strategy

In making its investment decisions, Remgro considers the culture and ethics of the company board and management team; the expected return on investment in comparison to Remgro's weighted average cost of capital; the company's environmental footprint; viability of the products and services, as well as the company's social responsibility (Remgro, 2015). These requirements are fairly standard across firms and it is thus of particular interest which sectors the company has focused on in practice. The specific investment criteria highlight the company's emphasis on investing in firms where it is able to gain a controlling stake or a position of substantial influence, be it in listed or unlisted firms (Table 5).

The requirement for a controlling stake suggests that the firms that Remgro is currently invested in are directly influenced by Remgro's own approach and strategy, and as such, we can expect the strategies of investee firms to directly reflect the Remgro's priorities and assessment of investment prospects in the economy. This is important to bear in mind in considering the various investments made such as in telecommunications below.

Table 5: Remgro investment criteria

Criteria	Descriptions
Geography	• South Africa & other African countries through investee companies
Investment size	• Make a meaningful impact
Investment stake	• Sufficient to exercise influence (>20%)
Listed vs. unlisted	• Unlisted is preferable
Disposals	• Ex-cash flow growth business • No value to be added • Risk profile has changed • Strategic reasons
Sector focus	• Financial services • Food, liquor and home care • Healthcare • Infrastructure

	• Media

Source (Remgro, 2015)

The company lists its future target sectors as financial services; food, liquor and home care; healthcare; infrastructure; media, with various criteria applied in making decisions (Table 5).

Table 6 below lists Remgro's investments between 2010 and 2015 while the section below examines the investments made against the criteria Remgro cites in its investment philosophy. Most significant in this period are the additional large investments in the food sector (through increased interests in RCL Foods, Foodcorp (acquired by RCL), TSB Sugar) and in telecommunications.

Table 6: Remgro's investments between the 2010 and 2015 financial years[23]

FY	Company	Industry	Investment
2010	VenFin	Technology/ Infrastructure	Remgro acquires VenFin for R3715 million by issuing 41.6 million shares on 23 November 2009.
2010	Capevin Holdings	Food and beverages	Remgro increased its effective interest in Distell from 29.2% to 33.3%.
2010	TSB Sugar	Food and beverages	On 3 August 2009 TSB Sugar acquired the Pongola sugar mill from Illovo for R180 million.
2010	PGSI	Industrial	PGSI made a rights offer in which Remgro participated by investing R171.1 million and then another R13.6 million resulting in an increase of interest from 25% to 25.2%.
2010	Xiocom Wireless	Technology/ Infrastructure	Remgro invested a further US$7.1 million in Xiocom, bringing the total invested in Xiocom to US$35.8 million.
2010	KIEF	Industrial	By 31 March 2010, R94.2 million of the R350 million committed was invested.
2011	FirstRand , RMB Holdings (RMBH) & RMI Holdings (RMI)	Banking and Insurance	Remgro received 81.2 million MMI shares following the merger of Metropolitan Holdings Ltd, Momentum Group Ltd and the unbundling by FirstRand of its entire shareholding into a merged entity (MMI Holdings Ltd (MMI)) to its ordinary shareholders. Remgro also restructured its holdings in FirstRand, RMBH and RMI, which resulted in the following direct interests held: RMI Holdings 34.9%, RMBH 31.5% and FirstRand 3.9%.
2011	Nampak	Industrial	In August 2010, the 13.3% interest in Nampak was sold for R1 358.9 million
2011	Trans Hex	Mining	On 13 September 2010 the 28.5% stake in Trans Hex was unbundled to shareholders.
2011	Mediclinic	Healthcare	Remgro invested a further R591.9 million in Mediclinic in August 2010 at R23 p/share -a rights offer. Remgro's interest on 31 March 2011 was 45.2% down from 45.7%.
2011	Business Partners	Other	Acquired a further 14 381 742 shares for a total amount of R79.3 million On a fully diluted basis, Remgro's interest grew to 28.8% from 20.8%.
2011	KIEF	Industrial	A further R132.1 million was invested during the financial year. By 31 March 2011, R226.2 million of the R350 million committed was invested.
2011	DFA	Technology/ Infrastructure	Remgro invested: R11.0 million directly into DFA; an additional R134.5 million in the CIV group of companies. It also advanced a 10-year shareholder's loan facility of R85 million to DFA. Remgro's share in DFA grew to 37.0% from 31.3%.

[23] Remgro Annual Reports 2010 – 2015.

	Capevin Holdings	Food and beverages	Acquired a further 11 096 828 shares for R38.5 million. Remgro's indirect interest in Distell increased to 33.5% from 33.3%.
	TSB Sugar	Food and beverages	Divested from its citrus operations and sold its interests in Golden Frontiers Citrus and Komatie Fruits effective 31 March 2011.
2012	KTI and Tiso Group	Industrial	KTI and Tiso Group merged effective 1 July 2011 with Remgro's interest in the new Kagiso Tiso Holdings (Pty) Ltd being 25.1%
	Tracker	Technology/ Infrastructure	In October 2011 the investment in Tracker was sold for a total consideration of R1 226.5 million.
	RMBH and RMI	Banking and Insurance	Remgro sold 50 088 654 RMBH shares and 68 866 361 RMI shares to Royal Bafokeng Holdings (RBH) (effective interest reduced from 31.5% to 27.9% and 34.9% to 30.3% respectively) in December 2011.
	Grindrod	Technology/ Infrastructure	Remgro acquired 127 662 895 ordinary shares for R1 932.8 million, gaining an interest of 21.3%.
	DFA	Technology/ Infrastructure	Remgro invested a further R150 million of the committed capital amount of R248.0 million directly into DFA raising its interest from 46.5% to 49.6%.
	Dorbyl	Industrial	In February 2012 Remgro disposed of 11 839 510 shares in Dorbyl to RECM and Calibre Ltd for a nominal amount. Remgro's interest in Dorbyl reduced to 6.5% from 41.4%.
	Implats	Mining	On 25 June 2012, Remgro distributed its investment in Implats to Remgro shareholders, as a dividend in specie, in the ratio 5.16582.
2013	Capevin Investme nts	Food and beverages	Capevin Investments was restructured on 13 August 2012. Remgro's direct interest in Distell was unaffected.
	MARC	Media	In September 2012, Remgro received an offer from Kagiso Media to acquire the entire capital of MARC for R335 million plus R10 million in respect of a shareholder loan.
	KTH	Industrial	In August 2012 Remgro increased its shareholding in KTH by 7.2% for a total amount of R484.8 million. Interest in KTH increased from 25.1% to 32.3%
	Mediclinic	Healthcare	On 1 August 2012 Mediclinic announced a comprehensive refinancing of its Swiss and South African debt. Mediclinic had a R5 billion rights offer, underwritten by Remgro to the amount of R5 billion. On 31 August 2012, all conditions precedent pertaining to the rights offer were fulfilled. Remgro subscribed for 75.8 million new Mediclinic shares at R28.63 per share for a total consideration of R2.17 billion.
	RCL Foods	Food and beverages	In March 2013, RCL Foods concluded a rights offer of R3.9 billion to purchase 64.2% interest in Foodcorp for a total consideration of R1 026 million, 49% interest in Zam Chick for $14.25 million, an additional 23.9% interest in Foodcorp from management for R393 million, on 1 July 2013, increasing its effective interest to 88.1%. Remgro acquired a further 219.6 million RCL Foods shares for R3 118.6 million, increasing effective interest to 75.9% (June 2012: 73.4%).
	DFA	Technology/ Infrastructure	Remgro invested a further R157.4 million directly into DFA. This increased Remgro's total interest from 49.6% to 50.8%.
2014	RCL Foods	Food and beverages	RCL Foods acquired the remaining 35.8% minority interest in Foodcorp for R520.7 million and TSB from Remgro for R4 billion settled by an issue of shares. Remgro made a pro rata offer to minority shareholders raising R790 million. Remgro's effective interest in RCL Foods on 30 June 2014 was 77.7% up from 75.9%.
	Milestone China III	Other	Remgro invested a further $25.2 million (total investment: $53.4 million), with a remaining commitment at June 2014 is $46.6 million.

	PGSI	Industrial	During the year Remgro participated in two rights offers and invested a further R47.1 million in PGSI. The PGSI cumulative, redeemable preference shares, invested in by Remgro in June 2009, to the amount of R129.6 million, redeemed in June 2014. Remgro used the proceeds to subscribe for 8.3 million new ordinary shares in PGSI, resulting in Remgro's interest in PGSI increasing to 37.7% (2013: 25.3%)
	Grindrod	Technology/ Infrastructure	Remgro acquired a further 26.1 million shares in Grindrod for a total amount of R652 million (R25.00 per share). In terms of a clawback offer, Remgro disposed of 4.0 million shares acquired during the bookbuild for a total consideration of R101.1 million. During June 2014, Grindrod issued a further 64 million shares to a consortium of strategic black investors. All of the above transactions reduced Remgro's effective interest in Grindrod to 22.6% (2013: 25.0%).
	CIV	Technology/ Infrastructure	As part of the CIV group restructure on 1 April 2014, to simplify the holding structure from multiple entry points to a single entry point, Remgro invested R67.3 million in CIV Holdings (CIVH). The restructuring did not change Remgro's interest in Dark Fibre Africa (DFA) materially.
	Distell	Food and beverages	As part of the restructuring of Distell's BEE transaction in order to maintain its current BEE rating, Distell issued 15.0 million new shares to BEE shareholders during January 2014. As a result, Remgro's total interest in Distell, which includes the indirect interest through Capevin Holdings, diluted to 31.0% (2013: 33.4%).
	ElementOne	Media	On 29 November 2013 a consortium led by Rand Merchant Bank and Remgro, through a new special purpose vehicle Bidco, made an offer to acquire 100% of ElementOne. Settlement through a combination of cash and shares in Caxton and CTP Publishers was affected on 25 February 2014. Remgro effectively exchanged its 1.8% direct interest in Caxton for a 6.1% indirect interest through Bidco and did not provide any funding for the transaction
2015	Mediclinic & Spire Healthcare	Healthcare	Remgro entered into an agreement with funds managed by Cinven to acquire 119 923 335 Spire shares (equating to a 29.9% shareholding in Spire). Mediclinic then acquired Remgro's interest in Spire for an amount of R8.6 billion. Remgro received a facilitation fee of R50.0 million for facilitating the acquisition of Spire by Mediclinic. Remgro invested an additional R4.6 billion in Mediclinic. Remgro's effective interest following the rights issue was 42.5%
	RMBH	Banking and Insurance	During April 2015 Remgro acquired a further 2 990 000 RMBH shares for a total amount of R215.5 million. Remgro's effective interest in RMBH increased to 28.2% (June 2014: 27.9%)
	CIVH	Technology/ Infrastructure	Invested R56.6 million in CIVH during August 2014. Equity increased from 50.7% (June 2014) to 50.9% (June 2015).
	Grindrod	Technology/ Infrastructure	Acquired a further 3 380 435 shares in the open market for a total amount of R58.0 million. Effective equity interest in Grindrod increased to 23.0% (June 2014: 22.6%).
	KTH	Industrial	Acquired an additional 3 000 ordinary shares for a total amount of R22.5 million. Effective equity interest increased from 34.7% (June 2014) to 34.9% (June 2015).
	Lashou Group Inc.	Other	Remgro disposed of its investment in Lashou in the first half of the year realising a loss of $19.9 million. Lashou is involved in online social commerce platforms from its base in China.
	Milestone China III	Other	Invested a further $33.1 million (total investment: $86.5 million) in the private equity firm (focused on high growth sectors in China including media, food and beverages, and alternative energy). Remaining commitment at 30 June 2015 amounted to $13.5 million. (Reinet also holds a stake in Milestone)

Source: Remgro Integrated Annual Reports, 2010, 2011, 2012, 2013, 2015, 2015.

Note: In 2012, Remgro changed its financial year from end of March to end of June to comply with the revised International Auditing Standard 600 ("ISA 600")

A simple count of Remgro's transactions (including major disposals and acquisitions of assets) in this period indicates that investments are in fact skewed in favour of deals in food, beverages and homecare; industrial entities; and technology or infrastructure firms.

Table 7: Remgro's deals made per sector, 2010-2015 (acquisitions and divestitures)

Sector	Total per sector
Financial (Banking and Insurance)	3
Healthcare	3
Food, liquor and homecare	8
Industrial	9
Technology/Infrastructure	10
Media and Sport	2
Mining	2
Other	4
Total per year	**41**

Source: Remgro (2015)

Note: Table 6 contains the number of transactions, both acquisitions and disposals that took place between 2010 and 2015. Therefore it includes certain transactions not accounted for in Figure 9.

Additionally, the investments are typically not in the form of short-term portfolio investments as the company aims to invest in companies in which high earnings and dividend growth can be achieved over the long-term (Remgro, 2015). Out of the 24 main entities listed in Figure 2 (group structure), Remgro has held investments in at least nine of the firms for more than 10 years (Distell, RCL Foods, RB Holdings, FirstRand, Mediclinic, Air Products SA, KTH, Total SA and Wispeco), and in seven firms for more than five years (Unilever, PGSI, Grindrod, CIV group, Seacom, Sabido and Business Partners).[24] This suggests Remgro is a long-term investors in many firms and sectors. Investments made over the long-term offer greater opportunities for investee firms to take risks and explore new products and ventures compared to portfolio financial holdings that generally involve achieving profits in the short-term.

5.1. Remgro's investment criteria

This section compares the investment decisions Remgro made between 2010 and 2015 with the investment criteria identified in its investment philosophy.

5.1.1. Geography and internationalisation

The company focuses on investments in southern Africa although investments outside the continent may be considered depending on opportunity. At the moment, Remgro has investments in six international platforms; Premier Team Holdings, Saracens Copthall, GEMS, Milestone Capital, Veritas and VisionChina (Remgro, 2015).

Remgro has 50% interest in Premier Team Holdings, a sports and leisure group with its base in the United Kingdom, and Saracens Copthall that owns a sports stadium in North West London. Remgro has also made a number of capital investments into GEMS, a private equity fund management group based in Hong Kong with investments in the Asia Pacific Region as well as Milestone Capital, also a private equity investment firm based in mainland Hong Kong.

[24] It was not possible to determine the duration of investment for the remaining eight entities using publically available information.

Veritas is an Israeli venture capital firm that primarily invests in see-stage technology firms in which Remgro holds a minority 3.7% interest. Remgro holds a 3.9% interest in VisionChina, a Chinese firm operating an out-of-home advertising network on mass transport systems. Remgro's investments in China, particularly in Milestone Capital, have not been profitable recently due to the economic slowdown in China but Remgro has chosen to maintain the investment with a view that value will be created in the medium- to long-term (Remgro, 2015).

While Remgro may have chosen to concentrate several investments in southern Africa (such as in Senn Logistics in Botswana through RCL Foods) with a few exceptions, it has subsidiary companies incorporated outside the continent such as; IPI (Overseas) Limited – Jersey, IPROP Holdings Limited – British Virgin Islands, Remgro International Limited – Jersey, Remgro USA Limited – Jersey and VenFin Holdings Limited – Jersey (Annexure A).

5.1.2. Investment size and impact

Remgro's philosophy is to make investments where there will be a meaningful impact. This suggests Remgro is interested in investing in lead or dominant players in their respective markets. This is demonstrated by the investments Remgro has made in the past 5 years, as well as the fact that the company is generally a long-term investor as noted above. RCL Foods, for instance, is one of the two largest poultry producers in South Africa, integrated through the entire poultry value chain. These interests were significantly enhanced by the acquisition of Foodcorp also in the food and agro-processing sector. Together with Astral, RCL produces about 46% of broiler meat in South Africa (Ncube, Roberts and Zengeni, 2016), with additional interests in Zambia and Botswana.

Remgro also has a relationship with SABMiller through its interest in Distell. SABMiller is the largest beer producer in South Africa with around 88% of the production capacity in the market (Matumba and Mondliwa, 2015). It is also the second largest producer of beer globally and, following the merger with Anheuser-Busch InBev, is part of the largest beer brewing group in the world. Recent media coverage suggests Remgro is now raising capital towards acquiring SABMiller's share in Distell following the conditions set in the AB InBev/SABMiller transaction.

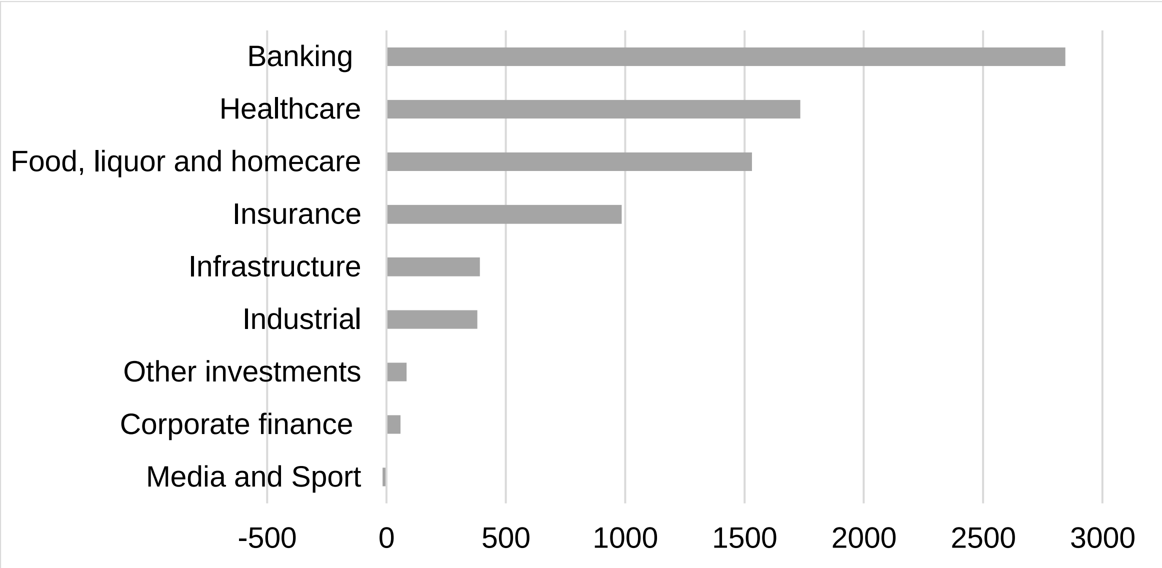
Similarly, Unilever in which Remgro has a 26% interest has a 51% market share in the soaps and detergents market and 53% market share in the soup market as of 2015 in South Africa (Euromonitor, 2015; Euromonitor, 2016). In the banking sector, FirstRand was the second largest bank in terms of value of total assets as of the end of 2015 (22%) (SARB, 2016).

Remgro's investment in technology and/or infrastructure has been in companies with a long-term focus and with a significant potential impact on the economy. Seacom in which Remgro has 25% interest was the first company to launch an undersea broadband cable along the eastern coastline of Africa in 2009 (Van Zyl, 2015). DFA, is one of only four significant fixed-line broadband providers in the country (Hawthorne, Mondliwa, Paremoer, and Robb, 2016). Through its 32.5% interest in Sabido, Remgro also exercises influence over e.tv, the first free to air television station in South Africa (Ashton, 2011). Each of these investments is in challenger firms in the sectors in which they operate (in contrast to stakes held in industry leading firms such as FirstRand and RCL Foods), which sectors appear to hold significant forward-looking growth prospects (such as in fibre networks). The firm also invests substantially in unlisted private entities. This suggests an appetite in the firm to invest 'opportunistically' in entrant firms in strategic sectors and make long-term commitments, which may align with policy considerations of the DTI. However, significant strategic control by

Remgro in firms in which it invests suggests that the potential to shape the strategies of those firms to align with those of government (in terms of enhancing competition and industrial development) is lessened and Remgro may prioritise its own profit and strategic interests.

The investments in technology firms contribute less to headline earnings currently although Remgro's interest in this sector is clearly long-term. Investments in banking and healthcare are especially profitable for Remgro, along with the holdings in food, liquor and homecare (Figure 12).

Figure 12: Contribution to headline earnings in 2015, Rm



Source: Remgro annual reports

5.1.3. Investment stake

Generally, Remgro positions itself to make investments to 20% or more equity stake in order to be able to have influence over the key decisions made in the firms. In each of the sectors listed in the group structure above, Remgro has at least 20% interest with the exception of FirstRand. However, RMB Holdings in which Remgro has a 28% stake holds a 15% interest in FirstRand which increases the influence Remgro has over the investment both directly and indirectly.

Remgro also actively pursues positions of significant influence in its investments. For example, the lack of sufficient influence over Nampak was one of the reasons why Remgro divested its interests in the company despite its good performance. In a Remgro SENS report, the rationale provided to shareholders for the divestiture was that the investment was non-core and the resources gained from its sale could be used to acquire investments that were more aligned with Remgro's strategy but also in which they could have a higher degree of influence (Remgro, 2010a). At the time, Remgro only had 11.8% interest in Nampak.

5.1.4. Listed and unlisted

Remgro invests significantly in unlisted companies which most likely has to do with the potential to exercise significant influence over the strategies and direction of those firms, and growth prospects. Of the 24 firms in Remgro's group structure, only seven are listed (Distell, RCL Foods, RMB Holdings, FirstRand, Mediclinic, RMI Holdings and Grindrod). However, with the cross-ownerships in the management structure, the actual number of unlisted companies over which Remgro has influence may be more than the listed companies.

Remgro's philosophy is to invest in listed firms in which it identifies long-term value (Remgro, 2015). Remgro's investments in RCL Foods and Grindrod are examples of this. Both companies are listed but with interests in diverse areas across their respective value chains. RCL Foods, for instance, has a logistics division, poultry production, animal feed, milling, baking as well as sugar production operations (RCL Foods, 2016). Grindrod provides freight services, shipping and financial services (Grindrod, 2016). The freight services include strategic projects in ports, terminals, rail and logistics across Africa.

5.2. Disposals

The company gives four reasons for possible disposals; ex-cash flow growth business; where there is no value to be added; when the risk profile has changed; and, for strategic reasons. Between 2010 and 2015 eight significant disposals were made: Xiocom Wireless, Nampak, Trans Hex, TSB's citrus operations, Tracker, Dorbyl, Implats and Lashou.

Technology companies Xiocom Wireless and Lashou appear to have been disposed of following poor performance. Both transactions resulted in a loss for Remgro (Remgro, 2010b; Remgro 2015). Tracker, however, appears to have been divested in anticipation of Remgro's reacquisition of VenFin, another technology company in the group. VenFin's most significant investees at the time were Sabido, Seacom, Tracker and CIV Group. The Competition Tribunal would only approve the acquisition on condition that Remgro's interests in Tracker were divested to prevent the sharing of information between competing firms in the stolen vehicle recovery market.[25] The divestiture of Tracker was effectively a precondition for the approval of the transaction.

Trans Hex was disposed of in the 2011 financial year following the company's acquisition of a 33% stake in the Luana diamond mining project in Angola in 2010 due to the fears of exposure to a difficult economic environment in Angola (Remgro, 2010c).

Remgro's interest in Implats (platinum mining) was similarly distributed to shareholders. The main reason provided for the distribution was that Implats was a non-strategic investment (Remgro, 2012). Remgro no longer has any investments in mining.

The official reason provided for the disposal of Dorbyl (in engineering services) was that the investment was not part of Remgro's core strategy. However, the company had faced a number of controversies over the years including allegations of fraud and accusations of conflicts of interest relating to the senior executives (Crotty, 2012). The company was sold off to RECM and Calibre Ltd which also subsequently sold off Dorbyl within a year after repeated failure to make the business profitable (RECM and Calibre, 2013).

5.3. Policy considerations – responsiveness to BBBEE

Between 2010 and 2015, Remgro's operations and investment strategy were significantly restructured in line with the Broad-Based Black Economic Empowerment (BEE) policy. In 2010, FirstRand, RMB Holdings (RMBH), RMI Holdings (RMI), Royal Bafokeng Holdings (RBH) restructured their shareholdings in order to improve their BEE credentials. RMBH and

[25] Remgro Limited and VenFin Limited Case No. 2009JUL4548

RMI founders scaled down their shares in the respective companies to improve the BEE rating through RBH which is a majority BEE company.

In December 2010, RMBH separated its banking and insurance interests into RMBH and RMI. Remgro also restructured its holdings in FirstRand, RMBH and RMI, which resulted in the following direct interests held: RMI Holdings 34.9%, RMBH 31.5%, and FirstRand 3.9%. RBH then acquired portions of the direct and indirect shareholdings in RMBH and RMI held by the companies' founders; GT Ferreira, LL Dippenaar and PK Harris. RBH additionally acquired a portion of Remgro's shareholding in both RMBH and RMI. Once the acquisitions were finalized, RBH held a 15% interest in both RMBH and RMI.

The outcome is that RBH is positioned as a strategic equity partner although ultimately Remgro holds an interest in RBH. This restructuring therefore has limited impact in terms of an effective increase in corporate control of black shareholders in these entities. However, the responsiveness of the Remgro group to concerns about its BEE positioning and compliance suggests that there is some scope for influence from a policy perspective using BEE as a policy lever.

The restructuring was likely to be a response, in part, to the Financial Sector Charter (FSC) (2007). In terms of the FSC adopted in 2003 and gazette in 2007, a minimum target of 25% black ownership of the South African operations of companies was required by 2010 measured at a holding company level, of which 10% was to be directly owned by black people. The FSC was subsequently reviewed and gazette in 2012. The requirements concerning black ownership, however, have not changed (Financial Sector Charter, 2012).

In December 2012, Remgro once again sold 50 million shares in RMBH and 68 million shares in RMI to RBH reducing Remgro's share from 31.5% to 27.9% and 34.9% to 30.3% respectively once again to facilitate a BEE transaction. Remgro also restructured or conducted BEE deals in 2014 for its subsidiaries RCL Foods and Distell in order to maintain its BEE rating. It was further affected by Grindrod's issue of shares to a consortium of black investors in May 2014.

From a policy perspective, this is an area for further research specifically in leveraging the general compliance of large firms with the BEE framework into other policy areas of strategic interest for the DTI.

6. Considering Remgro's investment strategy and impact in a key sector: Telecommunications

Remgro's interests in the economy span across various industries and as a result the firm's strategies and the impact on the wider economy may vary across these industries. It is, therefore, helpful to look at its strategies as well as the potential impact on market outcomes in more depth, by considering potential issues at a sector level. In this section Remgro's involvement in the telecommunications sector is assessed, within the infrastructure investment grouping. The selection is informed by the classification of the telecommunications interests as strategic investments for Remgro even though some are relatively new to its investment portfolio with limited contribution to headline earnings. This may be an indication of the long-term potential for these investments.

Remgro's investments in the telecommunications sector date back to the entry of Vodacom in the early 1990s. As described above, Remgro held "technology" interests within VenFin led by its 15% stake in Vodacom. In 2005, Remgro sold its shares in VenFin to Vodafone at a 41% premium on the 30-day average trading price for the shares. The main rationale for the transactions for Vodafone was the acquisition of a controlling share in Vodacom. Shortly after the acquisition, Vodafone created a new company to hold the remaining VenFin stock (Dimension Data, eTV, Tracker, Alexander Forbes, and Idion), which was then sold back to VenFin shareholders for R5 billion despite an asset value of R7.1 billion. The transactions raised a number of questions about the rationale for Remgro to sell off a lucrative investment, particularly as VenFin had acquired an additional 5% stake of Vodacom, just three years prior to the Vodafone transaction. In an interview, Johan Rupert indicated that the offer made by Vodafone was too good to turn down.[26]

In 2008, Remgro through CIV Holdings entered into a partnership with VenFin Limited, which has since been acquired by Remgro, to facilitate funding of the group's growth.

6.1. Remgro's current investments in telecommunications

Remgro is diversified in vertically related investments in the broadband value chain. Broadband networks encompass a number of layers, including undersea cables that transmit international connections (through Seacom), backhaul or national long distance connection (DFA), internet exchanges (typically managed by internet service providers), and last mile access to the business, home etc. (Conduct Telecoms). DFA has also acquired MCT communications, a full turnkey fibre optic network specialist in the planning, implementation, testing, certification and maintenance of fibre optic solutions for the telecommunications industry.[27] Remgro influences the strategic direction of these firms through its appointed director on the DFA and Seacom boards, Pieter Uys, who also heads up Remgro's strategic investments portfolio.[28] As Remgro's investment strategy is to focus on the companies where it can have material influence an assessment of the strategies of these individual companies sheds some light on Remgro's strategies overall.

Seacom launched the first undersea cable system along the East African coastline, linking South Africa, Tanzania, Uganda, Kenya and Mozambique with major hubs in Europe and East Asia in 2009. Remgro has 25% stake in Seacom alongside Industrial Promotion Services (26.56%), Herakles Telecom LLC (25%), Convergence Partners (12,5%), and Shanduka Group (12.5%). Seacom's entry in undersea cables has had a positive impact on market outcomes – prices of bandwidth to internet service providers fell by 35% in 2009 due to increased competition (Mondliwa and Paremoer, 2016).[29] By 2011, international bandwidth costs reduced by 83% and the new capacity provided by Seacom boosted broadband take up in the region.[30] The increased accessibility due to lower prices is also expected to have a positive impact on economic growth in the region. The World Bank estimates that every 10% increase in broadband penetration accelerates economic growth by 1.4% (Qiang et al., 2009).

Seacom has grown its business in the last few years. In 2015 it made its first profit and has fully recouped the initial investment in the construction and laying of cables. It is the only

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[26] http://www.afenacapital.com/afena-in-the-news/384-alexander-forbes-to-sell-risk-unit287.html ./
[27] http://www.mct.co.za/
[28] Remgro website: http://www.remgro.com/about-remgro/executive-management/
[29] Mondliwa, P. and Paremoer, T. (2016). "South Africans pay the price for poorly regulated telecoms sector". Available online: https://theconversation.com/south-africans-pay-the-price-for-a-poorly-regulated-telecoms-sector-60342
[30] http://www.pidg.org/impact/case-studies/seacom-undersea-cable

African service provider ranked in the top ten of wholesale service providers in Africa. This has been followed by a change in strategic focus to include metro-ring fibre and last mile fibre to enterprise end users.[31] Seacom has indicated its intention to buy out smaller 'fibre to the business' firms in South Africa and Kenya in order to grow this new area.[32] Remgro also has investments in DFA and Conduct Telecoms, which would compete directly with Seacom in the metro-rings and last mile access. If this strategy is successful Remgro will have influence in competing firms in the fibre to the business market. This could potentially raise issues of coordinated conduct, although there are a few other independent providers.

DFA was started by a group of telecommunications entrepreneurs in 2007. The company initially faced problems with consumer inertia. DFA needed long-term contracts to secure funding for infrastructure deployment, however, the customers were reluctant to sign long-term contracts until such a time that DFA had rolled out infrastructure at significant cost. DFA approached the IDC for funding but was unsuccessful as it could not meet the IDC's requirement to show sufficient signed contracts as a guarantee of future revenue (Hawthorne et al, 2016). When Remgro purchased a stake in the business in 2010 customers were more willing to sign the long-term contracts. Remgro's investment in DFA has been influential in its success as customers trusted that with Remgro's financial backing DFA would be able to roll out the required infrastructure.

DFA's difficulty in securing funding reflects a broader challenge of attracting investment in the fast-changing technology sector in which funders are often reluctant to invest due to a concern that today's technology will become obsolete before they are able to recoup their investments. This highlights the importance of the network of telecommunications 'venture capitalists' that have emerged in the last few years, including Remgro.

DFA now owns fibre network rings in Johannesburg, Cape Town, Durban (expanding to Pietermaritzburg), Midrand, Centurion and Pretoria. In the past twelve months, the network has been expanded to a further 21 smaller metros, including East London, Polokwane, Tlokwe, Emalahleni and George.

DFA has grown steadily since its entry. As of 31 March 2016, its fibre infrastructure is valued at R6 billion and the future value of contracts is estimated at R10 billion. In the last financial year, DFA revenue grew by 13.5% to R1.2bn and is expected to continue on this trend given the growing demand for broadband in South Africa. DFA has the 3rd highest market share in fibre in 2015 (6%), following Telkom (79%) and the state-owned Broadband Infraco (10%) (Hawthorne et al, 2016).

DFA's entry in the fibre market has also contributed to better outcomes in the broadband market. The company's business philosophy is to provide open access infrastructure to all customers on an equal footing (DFA, 2016). The availability of open access infrastructure has allowed for more competition between service providers and in turn lower prices for the final consumers (Hawthorne et al, 2016). However, DFA was a first mover as an open access

[31] http://mybroadband.co.za/news/industrynews/164790-seacom-strengthens-position-as-africas-leading-internet-enabler.html

[32] http://www.bdlive.co.za/africa/africanbusiness/2016/04/08/seacom-to-sell-broadband-directly-to-african-businesses

provider. Given the infinite capacity that is provided by fibre, it is unlikely that new players will lay long distance fibre alongside DFA's infrastructure.

In 2014, DFA acquired Conduct Telecoms to be able to provide more efficient cost effective solutions to customers. DFA has indicated that the acquisition will allow for synergies that will benefit the customers. Given DFA's philosophy of equal access on equal terms, it will be important to monitor how the integrated packages including DFA's backhaul and Conduct Telecom's last mile services will be priced.

Key policy questions arising in relation to telecommunications are as follows:

- How to leverage lead firms like Remgro for diversification? Within the telecommunications sector, Remgro has diversified into vertically related sectors. This strategy is not limited to the telecommunications sector as interests in food are also vertically integrated. Though telecommunications interests are not vertically integrated in the traditional sense, given Remgro's strategy to invest in firms that allow it material influence in the business, it is plausible that the strategies of these firms will be aligned. In the case of telecommunications, the same Remgro appointed directors to sit on the boards of both DFA and Seacom.

- How to channel Remgro's patient capital approach to investments to government priority sectors? Patient capital has been identified as an important tool for supporting entry into the economy (Roberts, 2016). However, in the DFA example, the initial entrepreneurs ended up with a small shareholding of 10% of the business. This would mean that there may be a change in the structure of the economy as more entrants are supported but the ownership may continue to lie in the hands of firms that established firms such as Remgro.

- How to leverage Remgro investments in telecommunications for increased broadband access at affordable prices in South Africa to meet the SA Connect targets?

7. Summary of key observations

Remgro is one of the largest conglomerate groups in South Africa. Together with its main listed affiliates, Remgro has a combined market capitalisation of R1.3 trillion representing 12% of the total JSE or R3.1 trillion (including BAT's market capitalisation) representing 27% of the JSE. The company maintains significant control of the firms in which it invests, as well as of the sectors in which those firms operate in so far as they are lead firms in different industries. As noted above, several investments are in industries where Remgro and its investee firms have potential to hold a sustained position of market power and where barriers to entry are high.

In a few of the other business divisions Remgro has been associated with incumbent firms, some of which have been linked to cartels, for example, Total SA in the fuel industry (for details on the cartel see Das Nair et al, 2015). However, the interests in telecommunications are primarily through entrants that are challenging existing incumbents such as Telkom in the provision of back-haul and under-sea cables. This entry has had a positive impact on outcomes in the individual markets.

Remgro's strategy in the telecommunications sector has also been to diversify into vertically related sectors, and highlights some important lessons for the consideration of other industries. In sectors where vertical integration is pervasive (poultry and beer industries[33]), firms have engaged in conduct that has raised barriers to entry for potential entrants in one level of the value chain. Until recently, Telkom was also using its vertical integration in the telecommunications industry to increase barriers to entry. This conduct was investigated by the competition authorities and found to be in contravention of the Competition Act. With interests in Conduct Telecoms and the move by Seacom to focus on last mile broadband access provision, Remgro will also have influence across horizontally related businesses. Though this may not necessarily be a problem, it would be prudent to monitor the developments in these markets going forward.

Remgro has a reputation as a patient long-term investor, particularly where there is long-term earnings potential.[34] Its investment in the telecommunications sector is a testament to this, whereby both DFA and Seacom are considered strategic investments despite the low contribution of these infrastructure investments to headline earnings currently relative to investments in other sectors.

Other important considerations arising from the assessment that affect the consideration of policy options are listed below:

- Remgro and affiliated firms have generally maintained lead positions on the JSE over time since 2000. Mediclinic and RMB, in particular, have moved up in the ranking by market capitalisation since 2010.
- Remgro's revenue and earnings before interest and tax more than doubled between 2010 and 2015. Key acquisitions such as that of Foodcorp by RCL Foods in 2013 contributed to the revenue growth in particular. RCL Foods has also led in terms of investments in poultry in southern Africa, although the investment in Zambia's Zam Chick was subsequently divested partly due to low profitability. RCL Foods has also invested in TSB, a big three sugar producer in South Africa, together indicating a deliberate strategy to diversify interests, which may also relate to low profitability in poultry due to imports, amongst other factors.
- Firms associated with Remgro are lead firms across various sectors and across segments of the main consumer goods, and several subsidiaries hold high market shares in market segments within this. There are also strong interests in financial services, infrastructure, industrial goods, telecommunications and logistics.
- Remgro tends to act as a long-term investor in companies, including in entrant or expanding unlisted firms such as Dark Fibre Africa (DFA). In some cases, the firms are challenger firms in the sectors (e.g. DFA) competing against established incumbents) whereas in others the investments made are to increase the equity held in established players in the different sectors (e.g. RCL Foods, Unilever SA, Total SA). The implications are potentially that Remgro is in a position to support the financing and growth of rival firms in certain sectors (particularly in infrastructure or telecommunications) which may have pro-competitive benefits. Where investments are long-term, the possibility for those

[33] See Grimbeek, S., & Lekezwa, B. (2013). The emergence of more vigorous competition and the importance of entry–comparative insights from flour and poultry. CCRED Working Paper 2013/1; Matumba, C., & Mondliwa, P. (2015). Barriers to Entry for Black Industrialists-The Case of Soweto Gold's Entry into Beer. CCRED working Paper 2015/11.
[34] http://www.financialmail.co.za/opinion/columnists/2015/09/24/market-watch-remgro-s-huge-potential

investees to develop capabilities over time, make investments, invest in product development, and pursue different strategies and business models is enhanced, as opposed to pure portfolio investments that prioritise short-term profits over long-term growth and productivity. However, barriers to entry are high in these sectors and it may render entry by subsequent firms difficult, leading to entrenched market power for firms associated with Remgro.

- Of selected listed firms affiliated with Remgro, it is worth noting that there has been significant growth in expansion and replacement capital expenditure, and as noted below the investments have largely been in South Africa.
- The company has chosen to focus its investments in selected sectors in this period and withdrawn from other investments such as mining (e.g. Implats), and those investments where its level of influence was not as high (such as the withdrawal from Nampak due to insufficient share and influence).
- In the majority of investments, Remgro has a representative member on the company board which ensures alignment of the firms' strategies with that of the holding company. As such, understanding and potentially influencing the considerations and orientation of the holding company can drive changes in the strategies of the associated entities.
- A majority (95%) of the value of Remgro's investments is local investments, which is most likely due to the fact that the holding company's investments are largely into the local South African affiliates and subsidiaries. The distribution of investments made by a sample of the investee firms suggests that these firms are in turn investing more outside of South Africa in terms of share of value (28%) led by RCL Foods and others. This is consistent with Remgro's strategy of handling investments abroad (and southern Africa) largely through its subsidiaries.

Remgro has very high profit retention rates relative to some of the listed firms in which it holds a significant interest. This is consistent with observations by Lewis (in Joffe et al., 1995) that the South African conglomerate groups are extractive in terms of retaining profits in the primary entity, limiting the extent to which earnings are reinvested in the development of new productive capacity in subsidiaries and affiliated companies.

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9. ANNEXURE A

List of Remgro's Subsidiary Companies, June 2015

	Incorporated in South Africa unless otherwise stated	% Interest
1	Eikenlust Proprietary Limited	100%
2	Entek Investments Proprietary Limited	100%
3	Financial Securities Proprietary Limited	100%
4	Friedshelf 1670 Proprietary Limited	100%
5	Historical Homes of South Africa Limited	58.7%
6	Industrial Electronic Investments Proprietary Limited	100%
7	Industrial Partnership Investments Proprietary Limited	100%
8	Invenfin Proprietary Limited	100%
9	IPI (Overseas) Limited – Jersey	100%
10	IPROP Holdings Limited – British Virgin Islands	100%
11	Metkor Group Proprietary Limited	100%
12	Partnership in Mining Proprietary Limited	100%
13	RCL Foods Limited	77.5%
14	Remgro Finance Corporation Proprietary Limited	100%
15	Remgro International Holdings Proprietary Limited	100%
16	Remgro International Limited – Jersey	100%
17	Remgro Investment Corporation Proprietary Limited	100%
18	Remgro Loan Corporation Proprietary Limited	100%
19	Remgro Management Services Limited	100%
20	Remgro South Africa Proprietary Limited	100%
21	Remgro Sport Investments Proprietary Limited	100%
22	Remgro USA Limited – Jersey	100%
23	Remont Proprietary Limited	100%
24	Robertsons Holdings Proprietary Limited	100%
25	RPII Holdings Proprietary Limited	100%
26	SEACOM SA SPV Proprietary Limited	100%
27	Stellenbosch Academy of Sport Properties Proprietary Limited	100%
28	TSB Sugar Holdings Proprietary Limited	100%
29	TTR Holdings Proprietary Limited	100%
30	VenFin Holdings Limited – Jersey	100%
31	VenFin Proprietary Limited	100%
32	VenFin Media Investments Proprietary Limited	100%
33	Wispeco Holdings Proprietary Limited	100%

Source: Remgro Integrated Annual Report, 2015

10. ANNEXURE B

Table 8: Information on Unlisted Investments, June 2015

Business	**Profile**
Food, liquor and home care	
Unilever	Unilever manufactures and markets an extensive range of food and home and personal care products while enjoying market leadership in most of its major categories. Well-known brands include Robertsons, Rama, Flora, Lipton, Joko, Sunlight, Omo, Surf, Vaseline and Lux.
Industrial	
Air Products	Air Products produces oxygen, nitrogen, argon, hydrogen and carbon dioxide for sale in gaseous form by pipeline under long-term contracts to major industrial users, as well as the distribution of industrial gases and chemicals for sale, together with ancillary equipment, to the merchant market. The other 50% of the ordinary shares is held by Air Products and Chemicals Incorporated, a USA company.
Total SA	Total SA is a subsidiary of Total (France). Total's business is the refining and marketing of petroleum and petroleum products in South Africa. It distributes to neighbouring countries. It has a 36% interest in Natref.
Kagiso Tiso Holdings	KTH is a leading black-owned investment company and has a strong and diversified asset portfolio covering the resources, industrial, media, power, financial services, healthcare, property and information technology sectors. Largest investments include Aveng, Kagiso Media, MMI Holdings, Exxaro Resources, Emira Property Fund and Adcock Ingram.
PGSI	PGSI holds an interest of 90% in PG Group. The PG Group is South Africa's leading integrated flat glass business that manufactures, distributes and installs high-performance automotive and building glass products. Its brands include PG Glass, Shatterprufe, PFG Building Glass, Primador, Smartglass, GSA, Widney, Safevue and Lumar.
Wispeco	Wispeco's main business is the manufacturing and distribution of extruded aluminium profiles used in the building, engineering and durable goods sectors. Brands include CREALCO and Sheerline.
Media and sport	
Sabido	Sabido has a range of media interests, which includes e.tv, eNews Channel Africa (eNCA), Gauteng-based radio station, Yfm and various studio and facilities businesses. It also launched its free-to-air satellite platform Open-View HD with additional channels.
VisionChina	VisionChina operates an out-of-home advertising network on mass transportation systems in China.
Infrastructure	
CIV Holdings	DFA is the biggest asset in CIV Holdings and constructs and owns fibre optic networks.
SEACOM	SEACOM provides high-capacity international fibre-optic bandwidth on the African continent.
Other investments	
Business Partners	Business Partners is a specialist investment company providing risk finance, mentorship, property accommodation, as well as management services to small and medium enterprises mainly in South Africa.
Pembani Remgro Infrastructure Fund (PRIF)	An infrastructure fund focused on investments in infrastructure companies and projects (and related industries) across the African continent. PRIF has an interest in the Export Trading Group (ETG), which owns and manages a vertically integrated agricultural infrastructure supply chain in sub-Saharan Africa. PRIF also has a 45% stake in GPR Leasing Africa, a rail rolling-stock leasing joint venture between the Fund and Grindrod Rail.

Source: Remgro Integrated Annual Report, 2015

11. ANNEXURE C: Richemont and Reinet investments and structure

Compagnie Financière Richemont SA (Richemont)

Richemont is a luxury goods holding company that was established in 1988 as a result of Remgro's (then Rembrandt Group Limited of South Africa) restructuring of its international assets. Richemont was established by Dr Anton Rupert in the 1940s. Rembrandt Group owned significant interests in the tobacco, financial services, wines and spirits, gold and diamond mining industries as well as the luxury goods that, along with the investment in Rothmans International, would form Richemont.[35]

Richemont has its headquarters in Switzerland and has its primary listing on the Swiss Exchange (SIX), while the company's leading stocks are included in the Swiss Market Index. Richemont's secondary listing is on the JSE. Currently, the group holds 21 luxury goods companies that design, manufacture and distribute luxury goods (mainly jewellery, specialist watchmakers, fragrances and textiles).

In the table below, companies whose acquisition details are not provided were acquired by the Vendôme Luxury Group before 1993 when Richemont's tobacco and luxury goods operations were separated into Rothmans International and Vendôme Luxury Group, respectively (Table 9). The luxury goods' subsidiaries were held by the Vendôme Luxury Group. Given the wide geographical span of the subsidiaries of Richemont, Richemont has 5 offices in four major regions - Compagnie Financière Richemont SA based in Geneva (Switzerland) while other regional offices are located in New York (covering the United States of America), Tokyo (covering Japan), Hong Kong (covering Asia Pacific), and Geneva (covering Russia, Middle East, Latin America and South Africa). The respective regional structures have the role and responsibility to provide support to subsidiaries located within the specific regions.

Table 9: Luxury goods companies held by Richemont

[35] See https://www.richemont.com/about-richemont/history-including-significant-investments-and-divestments.html

Name	Products	Operations location/headquarters	Acquisition details
Vacheron Constantin	Watches	Switzerland	Richemont acquired 100% in 1988.
Purdey	Gun & rifle makers	United Kingdom	Richemont agreed to buy Purdey's in 1994.
Baume & Mercier	Watches	Switzerland	Richemont acquired Baume & Mercier by buying out Vendôme Group in 1998.
Jaeger-LeCoultre	Watches	Switzerland	Richemont bought Jaeger-LeCoultre in 2000.
A. Lange & Söhne	Watches	Germany	The acquisition took place in 2000. Additionally, in 2003, Richemont acquired the final 10% that was previously held by family members of Lange.
Cartier	Watches & jewellery	France	Richemont started to own a minority holding in Cartier, in 1988. Cartier was also owned by Rothmans International in which Richemont had minority holdings in as well. At the time (1988) Rothmans International held Cartier Monde, Alfred Dunhill and, through Alfred Dunhill, Montblanc and Chloé.
Officine Panerai	Watches	Italy	-
IWC Schaffhausen	Watches	Switzerland	-
Piaget	Watches & jewellery	Switzerland	-
Lancel	Bags	France	-
Alfred Dunhill	Clothing & leather accessories	United Kingdom	-
Van Cleef & Arpels	Jewellery, watches & perfume	France	Acquisition of a controlling 60% interest in 1999. A further 20% was acquired in 2001 and the remaining 20% in 2003.
Montblanc	Writing instruments, watches, jewellery & leather goods	Germany	-
Chloé	Clothing, bags, fragrances & accessories	France	-
Azzedine Alaïa	Clothing	France	The acquisition took place in 2007.

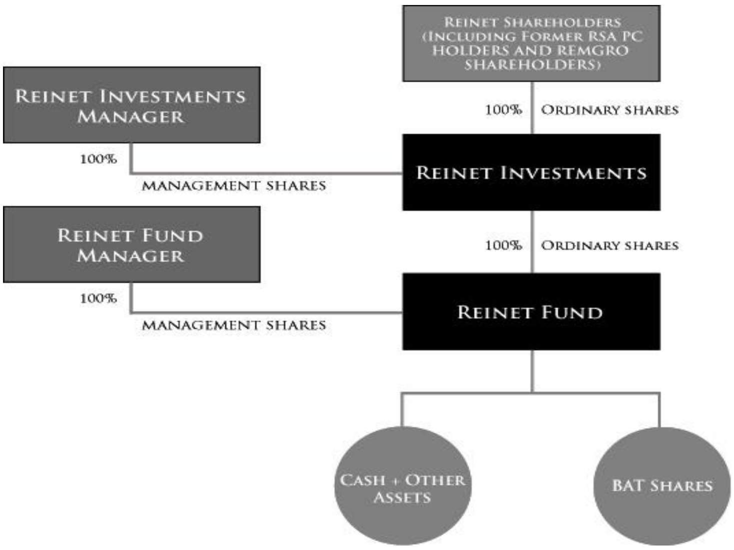
Shanghai Tang	Clothing	Hong Kong	In 1998, Richemont obtained a controlling share by buying the stake from David Tang (founder of Shanghai Tang). In 2008, Richemont completed its full acquisition of the company.
Roger Dubuis	Watches & jewellery	Switzerland	Richemont acquired a controlling interest (60%) in Roger Dubuis in 2008.
Peter Millar	Clothing, shoes and accessories	The United States of America	Finalised in 2012.
Giampiero Bodino	Jewellery	Italy	-
Ralph Lauren	Watches & jewellery	Switzerland	As of 2007, Richemont owns 50% of the entity.
YOOX Net-A-Porter Group	Clothing & accessories	Italy	Richemont acquired the majority of the shares of Net-A-Porter, the premier online luxury fashion retailer, in 2010. Richemont owns 50% of the entity. In 2015, Richemont merged Net-A-Porter Group with YOOX Group. Shares in the combined entity, the YOOX Net-A-Porter Group, are traded on Borsa Italiana, the Italian stock exchange.
Sources: Business Day (2016); Forbes (2016 ranking); FSP Invest (2016); Richemont 2016 Annual Report; Richemont website; subsidiaries' websites.			

Reinet Investments S.C.A.

Reinet Investments resulted from the restructuring of Richemont in 2008. Reinet Investments became the investment vehicle for Richemont's main asset which were the shares in British American Tobacco. Richemont took over all luxury goods interests. The company is owned and chaired by Johann Rupert. Johann Rupert is also the chairperson of Richemont. The main shareholder of Reinet is the Anton Rupert Trust. The Trust holds 48.4 million shares in Reinet and the shares amount to a stake of 24.72%.

Reinet Investments S.C.A. is a securitisation vehicle incorporated under the laws of Luxembourg. It is listed on the Luxembourg Stock Exchange as well as on the JSE. Reinet Fund S.C.A. F.I.S. is a wholly-owned subsidiary of Reinet Investments and is a closed-end, specialised investment fund also established in Luxembourg. It is the investment vehicle for all of the investments held within the structure (Figure 13).

Figure 13: Reinet investment structure



Source: Reinet website

Reinet's investment strategy is to take a long-term view of investment opportunities and investing in a wide range of asset classes, including listed and unlisted equities, bonds, real estate and derivative instruments. The emphasis is to protect shareholders' capital at all times. The major asset of Reinet is its holding in British American Tobacco (BAT) with 68.1 million shares, representing 3.7% of BAT's issued share capital. The next largest investment is in the UK's Pension Corporation (PensCorp), which makes up 14.6% of Reinet's net asset value (NAV).[36] Private equity and other related investments held by Reinet include Trilantic Capital Partners (a private equity company which was formerly the Lehman Brothers investment banking business), Renshaw Bay, and 36 South and Prescient's China Balanced Fund.[37] The table below presents both listed and unlisted investments of Reinet by 2016.

Table 10: Reinet investments (as at 2016 financial year)

[36] See http://www.moneyweb.co.za/uncategorized/reinets-investments-bear-fruit/
[37] See http://www.financialmail.co.za/moneyinvesting/2016/03/03/reinet-investments-trapped-value and http://www.moneyweb.co.za/uncategorized/reinets-investments-bear-fruit/

Company	Listed/Unlisted	Specialty	Location or headquarters	Investment/acquisition details
BAT	London Stock Exchange (primary), JSE (secondary)	Tobacco	England	In 2013, Reinet sold off two significant tranches of BAT shares in a debt reduction exercise, leading Reinet to hold 3.9% (74 million shares) in BAT. In 2016, Reinet sold 6.25 million BAT shares at an average price of GBP 38.585 per share; the aggregate proceeds amounting to EUR 307 million. Currently, Reinet holds 68.1 million shares.
SPDR Gold Shares (GLD)	New York Stock Exchange	Gold exchange	USA	In 2016, Reinet invested EUR 22 million in SPDR Gold shares, the largest physically backed gold exchange traded fund in the world. 230 000 shares are held by Reinet.[38]
Pension Insurance Corporation Group Limited (PensCorp)	-	Pension fund	England	Reinet Fund has committed to invest up to GBP 140 million (EUR 177 million) in 2016. Reinet had a closing balance in 2016 of EUR 920 million.
Trilantic Capital Partners	-	Private equity	USA	Reinet acquired Trilantic Capital Partners in 2009. Reinet purchased a 49% stake in the Trilantic management companies for $10 million during the 2009 acquisition. Reinet had a closing balance of EUR 143 million in 2016.
Renshaw Bay and related investments	-	Investment management	England	Reinet invested up to £10,005,000 in cash in Renshaw Bay. Reinet owns 25.01% of Renshaw Bay. Reinet invested an additional EUR 8 million in the Renshaw Bay Real Estate Finance Fund in 2015[39], leading Reinet's total investment to EUR 61 million.
36 South	-	Investment management	England	Reinet invested EUR 88 million in 36 South by the year ended 31 March 2011. The closing balance of Reinet's investment in 36 South was EUR 62 million by 31 March 2016.
Asian Private Equity & Portfolio Funds	-	Investment management	China	
The United States land development and mortgages	-	Property	USA	Reinet has co-invested both directly and with partners to acquire interests in real estate development projects in the USA. The investments are located in Florida, Georgia, Colorado, North and South Carolina and Nevada. Reinet has also purchased mortgage debt linked to land developments from financial institutions, usually at significant discounts to face value. The investment is carried at the value of EUR 164 million by 31 March 2016.
Diamond interests	-	Diamonds	-	By the end of the 2016 Financial Year, Reinet's investments in diamonds amounted to a total of EUR 59 million.
Sources: Companies' websites, Reinet 2015 and 2016 Annual Reports, SENS reports				

[38] SENS report http://today.moneyweb.co.za/sensview?id=271074
[39] See http://www.moneyweb.co.za/mny_sens/reinet-investments-s-c-a-management-statement-for-the-third-quarter-ended-31-december-2015/

12. ANNEXURE D: Remgro directorship

Executive Directors

JJ Durand	• **Chief Executive Officer** • Director, Discovery Limited • Director, Distell Group Limited • Director, FirstRand Limited • Director, Grindrod Limited • Director, Mediclinic International Limited • Director, RCL Foods Limited • Director, RMI Holdings Limited • Director, Unilever South Africa Holdings Proprietary Limited
WE Bührmann	• **Executive Director, Investments** • Charman, Invenfin Proprietary Limited • Director, Pembani Remgro Infrastructure Managers Proprietary Limited
L Crouse	• **Chief Financial Officer** • Director Dark Fibre Africa Propretary Limted • Director FirstRand Limited • Director RMB Holdings Limited • Director, Total South Africa Proprietary Limited

Non-Executive Directors

JP Rupert	• **Chairman Remgro Board, Chairman Investment Committee, Chairman Remuneration and Nomination Committee** • Chairman, Compagnie Financière Richemont SA • Chairman of Reinet Investments Manager SA
E De La Hertzog	• **Deputy Chairman Remgro Board** • Non-executive Chairman of Mediclinic International Limited. • Director, Distell Group Limited
J Malherbe	• **Deputy Chairman** • Director, Compagnie Financière Richemont SA • Director, Reinet Investments Manager SA

Independent Non-Executive Directors

SEN De Bruyn Sebotsa

- **Independent Non-Executive Director**
- Non-executive Director, RMB
- Non-executive Director, RMI Holdings Limited
- Non-executive Director, Discovery Limited
- Chairman, Aquarius Platinum (South Africa) Limited.

GT Ferreira

- **Lead Independent Director**
- Chairman, RMB Holdings Limited
- Chairman, RMI Holdings Limited

PK Harris

- **Independent Non-Executive Director, Member of the Remuneration and Nomination Committee , Member of the Investment Committee**
- Non-executive Director, FirstRand Limited
- Non-executive Director, FirstRand Bank Limited
- Non-executive Director, RMB Holdings Limited

NP Mageza

- **Independent Non-Executive Director**
- Director, Anglo American Platinum Limited
- Director, Eqstra Holdings Limited
- Director, MTN Group Limited
- Director, RCL Foods Limited
- Director, Sappi Limited

PJ Moleketsi

- **Independent Non-Executive Director**
- Director, Brait South Africa
- Director, Development Bank of South Africa
- Director, Harith Fund Managers
- Director, MMI Holdings Limited
- Director, Vodacom Group Limited

M Morobe

- **Independent Non-Executive Director, Member of the Audit and Risk Committee, Member of the Remuneration and Nomination Committee**
- Director, WWF-SA
- Director, Steve Biko Foundation
- Director, City Year South Africa
- Director, RMB Holdings Limited

F Robertson

- **Independent Non-Executive Director**
- Executive Chairman, Brimstone Investment Corporation Limited
- Chairman, Commlife Holdings
- Chairman, Lion of Africa Insurance Company
- Chairman, Lion of Africa Life Assurance Company Limited
- Chairman, House of Monatic
- Chairman, Sea Harvest Corporation Proprietary Limited
- Chairman, Board of Trustees of the University of the Western Cape Foundation

H Wessels

- **Independent Non-Executive Director, Chairman of the Audit and Risk Committee**
- Director, Keeromstraat 30 Investments Limited
- Director Naspers Investments Limited
- Director, Trencor Limited,
- Director, Peace Parks Foundation
- Director, WWF-SA